AMCA International Limited
Annual Report
1985

Contents

AMCA International Limited: *AMCA International is engaged worldwide in the design, engineering, manufacturing, marketing, installation and financing of a broad range of industrial products, including machine tools, construction equipment and engineering and construction services. The Company's operations are segmented as follows:*

Construction Products: *Compaction equipment; cranes and derricks; excavators; material handling equipment; tree harvesting and pulp and paper processing equipment.*

Engineering and Construction Services: *Bulk material handling systems; pile-driving equipment; offshore petroleum production and distribution systems; turnkey petroleum refineries, petrochemical and industrial plants; pre-engineered building systems.*

Financial, Marketing and Licensing Services: *Financing to promote sales of AMCA products; purchasing of raw materials and components for AMCA units; marketing of AMCA products; licensing of proprietary AMCA patents and trademarks outside North America.*

Industrial Products: *Aerospace components; beverage, dairy, food processing and packaging machinery; hydraulic components and systems; marine, industrial and shipyard cranes; metal forming machinery; water well drilling equipment. Machine Tools – Computer numerically controlled horizontal and vertical lathes and turning centers; horizontal and vertical machining centers; horizontal boring, drilling and milling machines; automatic assembly machines; flexible manufacturing systems; transfer machines; computer numerical controls; microprocessors; cutting tools and fixtures; drill point grinders; balancing equipment.*

Steel Products and Services: *Steel production, distribution, fabrication and erection; energy products, services and systems related to the generation and transmission of electric power from fossil fuel, nuclear, hydroelectric, tidal power and waste conversion resources.*

AMCA International Limited

The Company was initially incorporated as Dominion Bridge Company, Limited in 1882, reincorporated with the same name under the Companies Act of Canada on July 30, 1912 and continued under the Canada Business Corporations Act effective May 8, 1980. On June 1, 1981 the Company name was changed to AMCA International Limited.

AMCA International

200 Ronson Drive
Toronto, Ontario M9W 5Z9
(416) 243-9343

Dartmouth National Bank Building
Hanover, New Hampshire 03755
(603) 643-5454

10-K Report and Other Reports

A copy of the Company's 1985 Form 10-K Report to the Securities and Exchange Commission, without exhibits, is available upon request. Copies of previous annual reports and quarterly statements and the latest pictorial review, *World of AMCA International,* also are available. Please address your request to: Corporate Communications, AMCA International, Dartmouth National Bank Building, Hanover, NH 03755.

Le rapport 10-K et d'autres rapports

Une copie du rapport de 1985 de la Compagnie sur la forme 10-K sans annotations, préparée pour la Securities and Exchange Commission, est disponible sur demande. On peut également se procurer des copies des rapports annuels et des états financiers trimestriels antérieurs, ainsi que de la plus récente édition de la revue illustrée *World of AMCA International.* Veuillez addresser vos demandes à: Corporate Communications, AMCA International, Dartmouth National Bank Building, Hanover, NH 03755.

Shareholders' Meeting

The annual meeting of shareholders will be held in Salon A, Toronto Harbour Castle Hilton, One Harbour Square, Toronto, Ontario on Tuesday, April 22, 1986 at 9:30 a.m.

Financial Highlights
(Stated in millions)

	1985	1984
Revenues	**$1,561.1**	$1,440.2
Income from continuing operations	**16.8**	5.1
Net income (loss)	**16.8**	(1.7)
Total assets	**1,387.3**	1,316.7
Long-term debt	**395.2**	412.1
Shareholders' equity	**591.3**	539.4

Per Common Share Data
(Stated in dollars)

	1985	1984
Loss from continuing operations	**$ (0.12)**	$ (0.06)
Net loss	**(0.12)**	(0.26)
Common share cash dividends	**–**	1.00
Book value per common share	**9.45**	9.71
Common stock price TSE (high/low)*	**$20.375/13.125**	$28.00/17.00
Common stock price NYSE (high/low)**	**$15.375/ 9.875**	$22.00/13.50

Loss per common share is calculated by deducting dividends applicable to preferred shares from income from continuing operations and from net income (loss) with the result divided by the weighted average common shares outstanding during each year.

Loss per common share for 1984 has been restated to give retroactive effect to the common stock dividend paid during 1985.

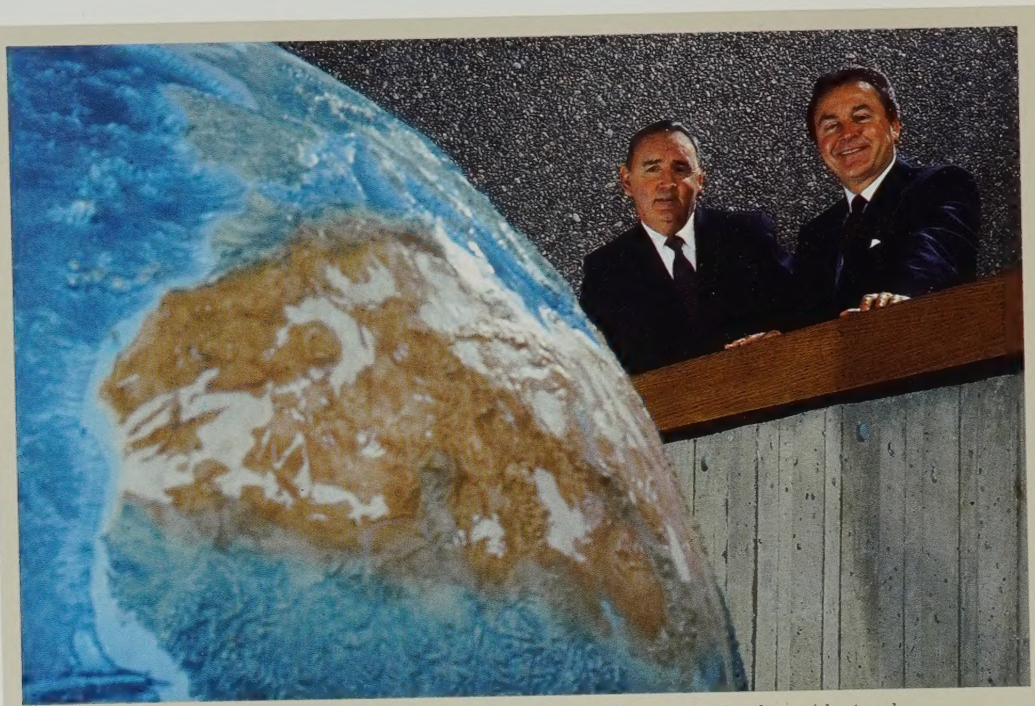
Book value per common share is calculated by deducting equity attributable to preferred shares from total shareholders' equity with the result divided by the common shares outstanding at the end of each year.

All figures in this Annual Report for the years 1977 to present are stated in U.S. dollars, while 1976 is stated in Canadian dollars.

*In Canadian dollars.

**In U.S. dollars.

Giddings & Lewis automated systems have numerous manufacturing applications including a range of component assembly functions for auto manufacturers.



Kenneth S. Barclay, left, chairman and chief executive officer, and William R. Holland, president and chief operating officer.

In prior Annual Reports, this cover letter summarized the year just concluded. It dealt in brief with what increasingly is more realistically portrayed at somewhat greater length in the report. As a result of that conviction, which stems from the size, diversity and complexity of our affairs, this letter, to provide you with an overall perspective, will focus on the essence of certain matters. It follows that your review of the report in its entirety is very much encouraged.

Results

AMCA sold product and provided services in 1985 totaling $1.6 billion and earned, in the process, approximately $17 million net of taxes. If we focus on pre-tax income from operations, and after reflecting a $9.8 million pension refund in 1984, that represented a $33 million improvement over the prior year on a $120 million revenue increase (which, in part, illustrates the effects of cost reduction programs implemented in the last several years and the consequent leverage implicit in an improving market). Notwithstanding that progress –

When preferred share dividends were paid out of that $17 million profit, there was nothing left for the common shareholder. In fact, we had a shortfall of $4 million. Still, the Company continues to recover from the major recession of '83 and '84 in measured fashion.

We booked new business in 1985 in a reasonably balanced manner throughout operations with the exception of Western Canada and one or two smaller businesses – and at a 20 percent higher rate than 1984. In fact, new business obtained of $1.8 billion represents a record. Prices and profit margins on that work continued to improve over those prevailing in the several prior years – underlining that we make headway – albeit at a moderate pace. As a consequence –

Our backlog – the dollar value of work to be completed – as we turned into 1986 amounted to just over $700 million versus $555 million a year earlier – a 26 percent gain. We feel that trend will continue.

The factors outlined above confirm that, in a volume sense, we are now approaching target levels. Meanwhile profit margins (essentially reflecting pricing), although improving, are still 4-5 percentage points short of what we need to generate sufficient annual pre-tax operating income to enable the Company to significantly utilize $350 million in available tax loss carryforwards. When that immediate goal is reached, cash flow will accelerate sharply with positive implications for a number of things, including common share dividends. On the latter score, you will recall we paid a stock dividend on the common in 1985 equal to 25 cents U.S. per share (approximately one share for every 50 held) and, as noted, made preferred share dividend payments approximating $21 million.

Operating Matters

The continued strength of the U.S. dollar hampered the overseas sale of U.S.-made products and, in turn, supported an invasion of the large U.S. market by competing foreign producers. Toward the end of the year, the dollar weakened – a process that is continuing. The beneficial effects of that softening of course take time to work through the system.

During the year, we took measures to combat the negative effects of the strong dollar by producing selected products in certain of our foreign plants and by importing others such as small excavators and some smaller size machine tools from Japan in addition to materials handling equipment from France.

Cost reduction throughout our organization continued to be an ongoing successful activity. To that end, we absorbed substantial cost associated with the further consolidation of our manufacturing plants – particularly with respect to our crane and excavator and machine tool businesses. We expect to succeed to the benefits of those moves in the future.

In the ordinary course of business, we completed the sale of several small business units, product lines and/or plants as previously reported with the proceeds – substantially cash – approximating $30 million and with no impact on our profit picture not previously provided for. In a somewhat different context –

As we came into September, we identified a number of other business units – modest in size – that, after study, we did not feel should fit into our future plans. The bulk have recently been sold. We have a letter of intent with respect to the disposal of another and continue to pursue the sale of the remaining business. We expect that this package, when completed, will generate about $85 million (book value) to be used for debt reduction. The sale will eliminate approximately 10 percent from annual sales – in the short run with no P&L impact – meaning that profits given up should be offset by lower interest expense as a consequence of the debt reduction. In the longer term, certain of those businesses could well have represented a profit drain.

We continued to innovate relative to new products and services and also spent in excess of $40 million on capital account on our plant facilities to keep the latter fully competitive and less labor intensive. In the course of the year, we acquired two metal building manufacturing plants, in Alabama and Ohio, a hard capsule machine manufacturing plant in Ontario and a small construction operation in Virginia. The purchases effectively add to our product line resources.

In the main body of this report, you will find detailed comments on results for last year, on a variety of operating considerations pertinent to same and on the outlook as we move into 1986 for each of our major business segments.

Interest Expense

Interest expense continues to be a major drag on operating income notwithstanding a 17 percent reduction in the level of expense in 1985. A comparable reduction in 1986 is anticipated.

Financing

During the year we entered into various fixed rate arrangements in lieu of previous floating rate facilities. The end result, when taken in combination with the proceeds of sale of the businesses referred to above, will reduce the level of our long-term debt early in 1986.

Management and Board of Directors

We made a number of changes during the year to strengthen management throughout our ranks including the appointment last July of William R. Holland to the office of President and Chief Operating Officer, plus several changes in the Board of Directors – as reported to shareholders at the time.

You were advised last April that the undersigned chief executive officer, in accordance with long standing personal plans, is relinquishing that office this spring so as to devote some time to other interests while continuing to be available as Chairman.

Outlook

Whereas the main focus of this letter is on the year just concluded and, whereas we will comment on future prospects in the forthcoming annual meeting proceedings, we do want to leave you with a few thoughts at this point which will also serve to partially summarize the preceding commentary.

– The world economy in 1986 is not expected to be much different than 1985. Capital spending, particularly in our large North American markets, should be reasonably strong benefiting from lower, more stabilized, interest rates which, by definition, should promote new construction and capital expenditures but impacted to some extent by delays in tax reform. Internationally, continued uncertainty is the order of the day due to volatile oil prices and the weakening dollar.

In that general context –

– AMCA's backlog continues to build.

In the process –

– Margins improve – slowly – but remain below historical levels.

– The U.S. dollar has weakened and should come down further. That should stem the flow of foreign-made capital goods into North American markets and improve our ability to sell AMCA products overseas.

What the aforesaid adds up to for 1986 is – no boom, no bust – rather, measured progress for the general economy. AMCA, on the other hand, expects to make more substantial headway toward significantly better levels of profitability which will become evident as we move into the second quarter.

In closing, we very much appreciate your continued support and that of many others in the AMCA family of companies and elsewhere.

K. S. Barclay

Kenneth S. Barclay
Chairman and
Chief Executive Officer

W. R. Holland

William R. Holland
President and
Chief Operating Officer

March 17, 1986

Pre-1970, the Company fabricated structural steel and provided engineering and construction services predominantly for the Canadian market. Through selective acquisitions and internal growth it is now, in addition, a worldwide producer of a broad range of industrial products including machine tools, construction equipment and engineering and construction services.

In the first approximately 90 years of existence through the end of the 1960s, AMCA fabricated structural steel and provided engineering and construction services for the Canadian market. Through subsequent selective acquisitions and internal growth, the Company now also furnishes a broad range of construction equipment, engineering and construction services, industrial products and machine tools – manufactured and sold worldwide. This reflects the fact that, at the beginning of the last decade, the Company embarked on a specific program aimed at growth and diversification within the scope of its expertise – the design, engineering, marketing, manufacturing, installation and financing of capital goods and services sold primarily to industrial accounts.

That decision produced substantial profitable growth and diversification, as elsewhere recorded, and began with the acquisition of Varco-Pruden in 1970. In subsequent years, major acquisitions, such as Amtel, Koehring and Giddings & Lewis in 1977, 1980 and 1982, respectively, were complemented by a number of smaller purchases which significantly broadened AMCA's product line.

The program focused on balanced diversification to help the Company cope with the effects of economic cycles and product obsolescence while promoting participation in new markets and technologies. The overriding goals have been, and remain, to:

– Maintain the broadest posture possible;
– Straddle a number of industries and markets;
– Avoid the instability and unfavorable consequences often associated with one line of endeavor in one part of the globe.

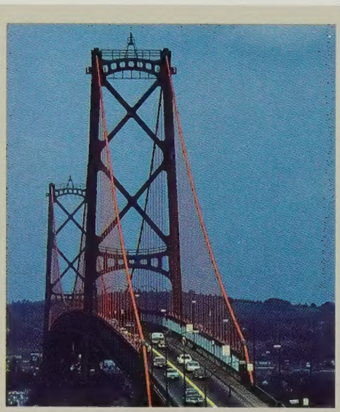
AMCA allocates resources (people, money and materials) accordingly and invests for "return," avoiding emotional attachments to any product or physical location, recognizing that each has its day in the sun. Continuing emphasis is placed upon margins (profitability) and turnover (asset utilization relative to volume generated) to maximize return on investment. At any point in time, management is guided by several priorities:

– Avoid catastrophe (you don't bet the business on any single decision or set of decisions);
– Beat the current business plan;
– Organize for future profit improvement.

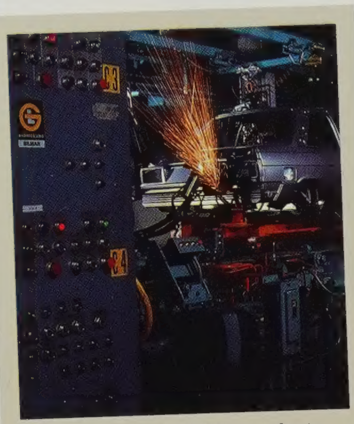
And, in the process:

– Work at improving the quality of earnings;
– Develop and retain capable management, in depth, in operations and at the corporate level, while –
– Continuing to strengthen AMCA's position in the industries the Company serves through judicious acquisitions from time to time and by entering new industries compatible with the Company's basic skills. As a result –
– Make AMCA better known and more highly regarded while continuing to seek headway in the vital area of return on shareholders' equity.

In that context, AMCA intends to continue to provide an expanded range of high quality industrial products and services for a widening spectrum of customers. The essence of management's current efforts is to bring the Company back to the profit levels it enjoyed prior to the recession of recent years which, with related developments, negatively impacted AMCA's fortunes. Management believes that, as a consequence of a number of cost reduction, consolidation and restructuring moves implemented, those profit levels are in the process of restoration but not at the expense of sacrificing longer term growth and profit objectives.



AMCA's roots reach back more than a century. The Company has constructed numerous landmark buildings and bridges across North America, primarily in Canada.



In recent years, AMCA's products and services, such as G&L automated assembly systems, reflect the technology and diversity required by customers around the world.

Sales Distribution: Of the total of all AMCA International products and services provided during 1985, 66 percent was sold to customers in the United States, 18 percent was sold to customers in Canada, 9 percent to customers in Europe and 7 percent to customers in other areas around the world.

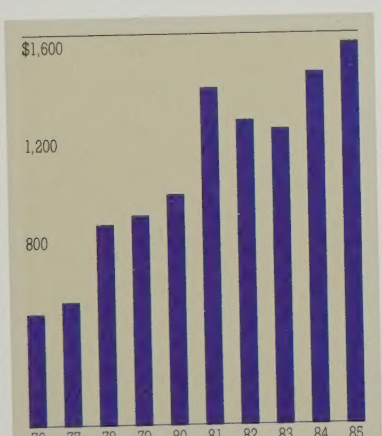
Sales (In Millions)

	Construction Products		Engineering and Construction Services		Financial, Marketing and Licensing Services		Industrial Products		Steel Products and Services		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
1985	274	18	444	29	36	2	568	36	237	15	1,559	100
1984	260	18	418	29	7	1	485	34	256	18	1,426	100
1983	201	17	315	26	3	–	447	37	248	20	1,214	100
1982	218	18	373	30	4	–	359	29	285	23	1,239	100
1981	309	23	439	32	3	–	295	21	327	24	1,373	100
1980	104	11	362	38	12	1	194	21	272	29	944	100
1979	–	–	349	40	33	4	199	23	287	33	868	100
1978	–	–	335	41	45	5	173	21	270	33	823	100
1977	–	–	104	20	59	11	71	14	287	55	521	100
1976	–	–	95	21	20	4	82	18	259	57	456	100

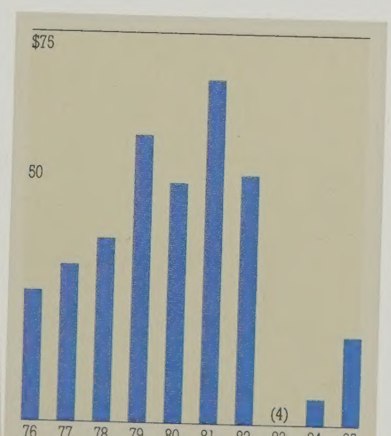
Operating Profit (In Millions)

	Construction Products		Engineering and Construction Services		Financial, Marketing and Licensing Services		Industrial Products		Steel Products and Services		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
1985	22	27	21	26	6	7	30	36	3	4	82	100
1984	13	21	21	34	3	5	27	43	(2)	(3)	62	100
1983	5	14	(2)	(5)	10	27	25	67	(1)	(3)	37	100
1982	15	12	30	25	20	16	39	32	18	15	122	100
1981	48	26	32	17	23	13	46	25	34	19	183	100
1980	15	17	18	20	1	1	34	37	23	25	91	100
1979	–	–	22	25	8	9	28	31	31	35	89	100
1978	–	–	37	40	5	5	26	28	25	27	93	100
1977	–	–	13	24	7	13	16	30	18	33	54	100
1976	–	–	10	19	2	4	20	38	21	39	53	100

Segment operating profit is further defined in Note 11 to the Consolidated Financial Statements.
Years 1977 to present are stated in U.S. dollars, while 1976 is stated in Canadian dollars.

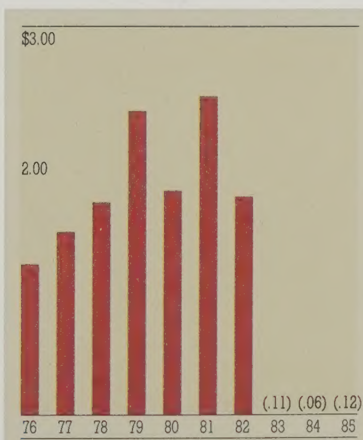


Revenues
(In Millions)



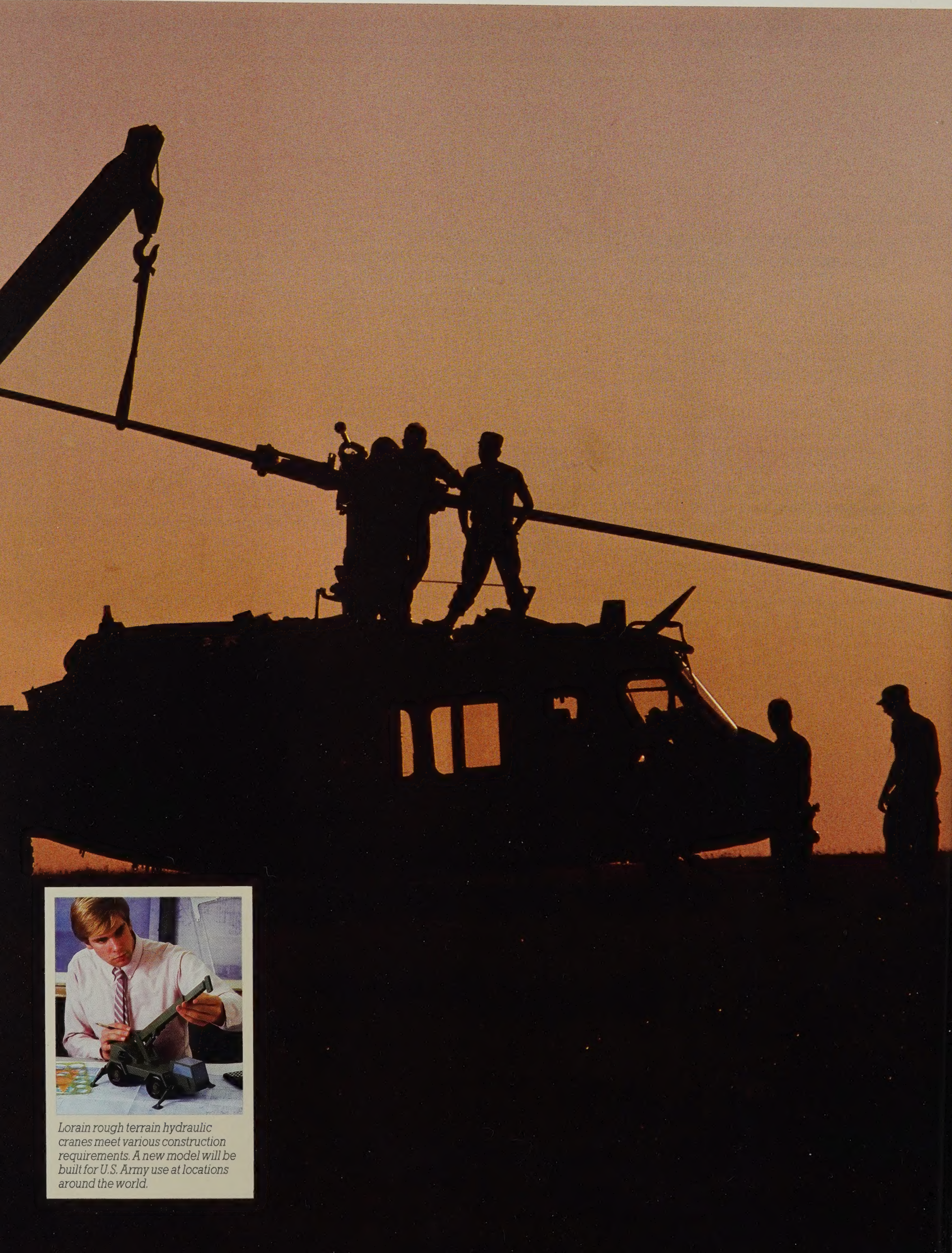
Operating Income
(In Millions)

From continuing operations



Operating Income Per Share

From continuing operations



Lorain rough terrain hydraulic cranes meet various construction requirements. A new model will be built for U.S. Army use at locations around the world.

Results: *Sales of $275 million and operating profits of $22 million were markedly better than 1984 but still below target levels. The Compaction Equipment Division achieved significant profitability with strong markets in North America and Great Britain. Crane and excavator sales and earnings were improved but still negatively affected by intense price competition. A $55 million order for cranes will carry for several years. Cost reductions, closure of the Milwaukee plant and consolidation into an expanded Iowa plant assisted in the division's return to profitability. Operating results and new order activity were strong in the material handling and woodlands equipment operations.*

Outlook: *Continued progress is expected in North America in 1986 as a result of a significantly improved backlog, cost improvements from consolidation activities and an updated product line. Markets will continue to be very competitive but the situation could be helped by the recent weakness of the U. S. dollar.*

Compaction Equipment
BOMAG, headquartered in West Germany, is a world leader in compaction equipment. Products include tampers, walk-behind rollers and double-drum vibratory compactors, large earth compactors, a full line of vibratory road rollers, sanitary landfill compaction equipment, soil stabilizers and asphalt recycling machines.

While BOMAG's traditional compaction equipment markets (Eastern Europe and the Middle East) were depressed due to world economic conditions and greatly reduced oil pricing, overall performance was excellent, buoyed by strong sales in North America. Sales to the U.S. and Canada were enhanced by the successful introduction of a full line of vibratory tandem rollers supplemented by static and rubber-tired rollers designed specifically to fit the U.S. market which is benefiting from a road renovation program. The BOMAG world class line is now manufactured primarily in West Germany with additional facilities in Japan, Canada, South Africa, and Yugoslavia.

A major expansion of the Boppard plant will be effected during 1986 to accommodate the concentration of production in West Germany.

Cranes, Excavators and Material Handling Equipment
This unit, now headquartered in Iowa, designs, manufactures and markets a broad line of hydraulic cranes, a full range of hydraulic excavators, material handling equipment for the construction industry, and machinery for harvesting and processing pulpwood, as well as paper mill machinery. These products are marketed throughout the world under the Koehring, Lorain, SKAT TRAK, SKYTRAK® and Waterous names. Plants are located in Iowa, Tennessee, Wisconsin and Ontario.

Increased housing starts and generally improved construction activity helped bolster the market for this division's products. While the division was able to take advantage of the market upturn, these improved conditions combined with the strong U.S. dollar to encourage aggressive price competition from non-U.S. manufacturers. The division had considerable success improving overall efficiencies through the combination of stringent cost reduction programs, the consolidation of production in the modern Waverly, Iowa facility, and the elimination of manufacturing redundancies and inefficiencies by closing the aging Milwaukee plant – all of which helped make possible more competitive pricing.

A $55 million multi-year contract was received to produce 1,000 7.5-ton low profile hydraulic cranes for the U.S. Army. Half will be produced in Iowa and the balance at the BOMAG plant in West Germany.

During 1985 six new crawler-mounted hydraulic excavators and a new family of truck-mounted hydraulic cranes were introduced. The Teleskoop® line was restructured with the introduction of four new units. The division's entire product line has been redesigned over the last three years.

The material handling segment of the division (specialty forklifts and loaders) enjoyed a strong year made possible in part by the favorable reception the construction industry gave to a new line of forklifts introduced in late 1984. Backlog is currently at the highest point in the unit's history. Still another pair of new models, both rough terrain forward reach forklifts, show promise of receiving equally good reception in the months ahead.

Sales and earnings at Koehring Canada continued an upward trend in 1985 in both tree harvesting and pulp and paper equipment, due principally to modernization programs and customer investments in productivity. Customer acceptance of new products continued to make it possible for Koehring Canada to maintain market share against foreign and domestic competition. Development of new markets proceeded in the southeast United States and in Australia. The division's patented new tree felling saw head has become a standard in the industry and is being installed on competitors' machines.

Single-drum vibratory rollers, like all models of BOMAG equipment, incorporate sophisticated technology to determine compaction of all types of earthwork projects.


Koehring Construction Equipment's versatile Model 9038 SKYTRAK is built to reach up four stories and lift more than four tons of building material and equipment.


Koehring Canada's specialized machines, including this feller-buncher, are used by the pulp and paper industry to harvest pulpwood and other forest products.

Custom design is an asset in all types of pre-engineered buildings including a cavernous Goodyear airship hangar in Florida for which Varco-Pruden supplied the steel.

Results: *Sales of $444 million were up over 1984 but margins were lower. As a result, earnings of $21 million were unchanged. The pre-engineered building market held strong through the year but heavy competition resulted in reduced margins. JESCO again reported record operating results. Litwin Engineers & Constructors had an improved year in both new construction and retrofit activities. Disappointing performances at IMODCO and Litwin S. A. were due to delays in awarding of major contracts. However, both had strong bookings during the second half. Sales and earnings at MENCK were much improved and several large orders were booked late in the year.*

Outlook: *Improved results are expected in 1986 due to a notably higher backlog entering the year. The metal buildings market will continue to be affected by price pressures. Sustained improvement at remaining operations is dependent upon impact of volatile oil prices in world energy markets and the ability to take advantage of isolated opportunities.*

AMCA Buildings

AMCA Buildings, headquartered in Tennessee, encompasses Varco-Pruden Buildings, Quonset Buildings, Stran Buildings and Construction Services and is one of the world's largest manufacturers of pre-engineered buildings. Varco-Pruden plants are located in Alabama, Arkansas, California, Missouri, North Carolina and Wisconsin. Stran has plants in Georgia and Ohio. Varco-Pruden, Quonset and Stran products are marketed in the U.S. and Canada through more than 1,500 builder/dealers and by Span Holdings Limited throughout the rest of the world.

Varco-Pruden had another strong year, second only to 1984. A newly acquired plant in Alabama was integrated into the organization and production of a redesigned line of Quonset rural buildings was moved to the expanded Missouri plant, placing it near the center of America's agricultural industry and strengthening Quonset's competitive and distribution position.

Stran Buildings had a more difficult year, suffering reduced productivity caused by a combination of operational problems and systems changes at the LaGrange, Ga., plant.

JESCO operates in Alabama, Mississippi and a new office in Virginia as an open shop contractor that designs, engineers and constructs industrial and commercial buildings and process facilities in the Sun Belt states of the U.S. JESCO had an excellent year, with record sales and earnings.

AMCA Engineers & Constructors

AMCA Engineers & Constructors is comprised of Litwin Engineers & Constructors, Litwin Corporation, Litwin S.A. and ORBA. Headquartered in Texas, Litwin E&C and Litwin Corporation design and construct oil refineries and petrochemical/chemical plants. Litwin S.A., in France, designs, engineers and constructs petrochemical plants outside the United States. ORBA, whose offices are in New Jersey, provides turnkey engineering and construction services for handling and transporting bulk materials as well as full services for operating bulk handling facilities.

Litwin E&C completed work on a major oil refinery expansion project in Alaska ahead of schedule and below budget. The unit also received several contracts to retrofit existing North American refineries to produce unleaded gasoline, reflecting the predominant use of that type of auto fuel.

Although Litwin S. A. had a loss year, this unit booked a major contract (involving the design and equipping of a major gas gathering and treatment plant in Eastern Europe). Another contract joins the expertise of Litwin S.A. with ORBA's bulk materials handling knowledge in the construction of a coal processing and handling facility in Morocco.

While ORBA operated below expectations in engineering, nonetheless it continued to turn a profit from management of coal facilities in the United States.

Marine Operations

The Company's marine operations include IMODCO and MENCK.

Although 1985 was a poor year for IMODCO, due to project delays resulting from the continued poor energy market, a large contract was booked late in the year involving supply of several mooring terminals for installation in the Middle East.

MENCK produces pile hammers for both offshore and onshore applications. Sales of MENCK hammers were up significantly for the year with bookings and backlog reflecting notable gains. MENCK also established new records in the rated capacity of its product line.

Litwin designs and builds a full range of production, processing and auxiliary facilities for oil, gas and petrochemical suppliers around the world.

In addition to being a leader in offshore mooring systems, IMODCO designs, engineers and converts tankers into storage/process vessels linked to offshore oil rigs.

MENCK's hydraulic pile-driving hammers are the largest made and are used extensively in the construction of offshore platforms.

AMCA's financial services operations frequently play an integral role in providing resources that contribute to resolution of major contracts.

Results: *Domestic financing activity increased primarily as a result of the strong North American compaction and construction equipment markets. The strong U.S. dollar for most of the year inhibited international financing activities for Company products exported from North America. International trading activities also suffered as a result of a slow world economy and lower oil prices in particular. The Company benefited, however, from favorable foreign exchange and chemical trading activities.*

Outlook: *International money management, licensing, financing and marketing services provided by these operations will continue to play a key role in enabling the Company to market products throughout the world. Stepped up activities in 1986 in both financing and trading functions should broaden use of these services by a range of customers outside the Company and especially in North America and will include the financing of non-AMCA products.*

This segment of AMCA's business provides financial and trading services to other AMCA operations and to AMCA customers. The group, through AMCA Netherlands B.V., also functions as AMCA's international holding company.

Holding Function

From headquarters in The Netherlands and through branches or subsidiaries, AMCA Netherlands B.V. is engaged in a range of business activities normally associated with an international holding company including licensing of proprietary patents and trademarks throughout the world.

Financial Services

AMCA Netherlands B.V. operations in Fribourg, Switzerland and London, England, provide AMCA's internationally based customers with financial services and financing for goods produced and services offered by the AMCA family of companies. AMCA International Finance Corporation (AIFC), located in Wisconsin and Texas, provides a broad range of financial services to support the sale of products manufactured by AMCA operations and sold in the United States. AMCA International Finance Limited (AIFL), set up in Alberta, provides identical services to support the sale of products manufactured by Company operations in Canada.

In a move to more closely identify its function, a trade name change was effected for the Swiss operation – to AMCA Financial Services. Activities during the year included: a financing package that helped expedite the sale of a large shipment of Speedstar drilling rigs to Tunisia; procurement of a major order for Clyde cranes and MENCK hammers for a British offshore construction firm, and close cooperation with BOMAG-MENCK that resulted in a substantial pile-driving hammer contract for an Italian customer.

In the United States, AIFC enjoyed good growth during 1985 in both its client base and physical size. By establishing a new office in Dallas, Texas, in addition to its office in Wisconsin, the client base has increased to over 1,000 customers. To provide services in the southeastern United States, an office will be opened in Atlanta during 1986.

Trading Services

The Company conducts trading activities from four locations: Switzerland, France, Japan and the Bahamas. Reflecting the broad trading function it performs, the name Span Holdings S.A. was changed to AMCA Trading S.A. Based in Fribourg, Switzerland, this business provides a spectrum of purchasing, trading and related services for the AMCA International family of companies. The strong U.S. dollar and the slump in oil prices had a dampening effect on the volume of business conducted by AMCA Trading S.A., making it difficult to sell products produced in the United States in traditional overseas markets. A purchasing office, opened in Tokyo in 1984, increased the ability of AMCA Trading to procure products and components in the Far East.

Span Holdings Limited, located in Nassau, Bahamas, owns, or has under license, rights to market throughout most of the world a variety of AMCA products including pre-engineered buildings.

AMCA Chimie et Plastiques (ACP), a trading operation located in France, performed well in both sales and earnings for the year. ACP trades chemicals and industrial equipment in volume throughout Europe and to Soviet bloc nations.

Some products, including certain models of excavators, are made by foreign manufacturers and marketed in North America under Company trade names.

Cherry-Burrell's aseptic processing systems contribute to longer shelf life for such food and beverage products as soups, stews and beverages like cranberry juice.

Results: *Sales of $568 million and earnings of $30 million improved over 1984 by 17 percent and 11 percent, respectively. Aerospace, automotive and general industrial markets experienced continued strength. Giddings & Lewis machine tool operations were significantly improved over 1984 as a result of strong bookings early in the year but still performed well below historical levels. The strong U.S. dollar, uncertainty over proposed tax reform in the U.S. and general sluggishness in the capital goods sector in North America resulted in a slowdown in order activity during the second half. Cherry-Burrell continued its excellent profitability.*

Outlook: *While heavy industry's turnaround has been slower than generally predicted, AMCA believes that 1986 will see a continuing upward trend that will contribute to better results. AMCA enters 1986 with a strong backlog in several quarters and good indications that order activity will improve for the rest. Strongest market potential continues in the automotive and defense/aerospace industries.*

Aerospace Division

This division includes Fenn Manufacturing and Monroe Forgings. Fenn, located in Connecticut, precision machines customer-designed components primarily for the aerospace industry. Fenn also produces metal forming machines. Monroe, whose plant is in upstate New York, produces alloy metal ring forgings used predominantly in the manufacture of jet engines.

As anticipated, business for the Aerospace Division continued strong in 1985 reflecting the government's continued emphasis on building the nation's defense posture. Although Fenn experienced some delays in receipt of customer-supplied materials, orders for subcontract components reached record levels for the unit which now has its broadest customer base ever. Monroe enjoyed a high level of sales and earnings and, in preparation for what is expected to be continuing high demand for rolled rings, a new multi-million dollar computer-controlled ring mill is being installed in 1986 to greatly expand Monroe's production capacity.

Cherry-Burrell

Cherry-Burrell, headquartered in Iowa with additional plants in New York, Kentucky and Ontario, is a world leader in the manufacture of sanitary processing and packaging equipment for the beverage, food and pharmaceutical industries. Major product lines include gable-top beverage carton fillers, process equipment such as homogenizers and ice cream machines, hard capsule machines, stainless steel fittings and valves, tanks and vessels.

The Cherry-Burrell division completed its tenth year as part of AMCA with another strong performance. In the packaging and process equipment line, volume was significantly ahead of 1984 although customer-dictated delays caused some shortfall relative to expectations. The division is encouraged by increased quotation activity in Europe and successful introduction of a number of new products. During the year, the division improved its technology for production of hard capsule machines by acquiring an Ontario-based product line. This also provides a Canadian manufacturing source for the hard capsule line as well as other Cherry-Burrell equipment. The division's Anco-Votator unit also successfully introduced a computerized high-speed system for slicing and weighing bacon. Another new product, an ice cream freezer, utilizing a G&L controller, was also introduced.

Fluid Power Operations

AMCA's fluid power operations include Benton Harbor Engineering in Michigan, a producer of hydraulic valves and cylinders particularly for the construction, agricultural and material handling sectors, and Pressed Steel Tank in Wisconsin, a manufacturer of steel cylinders and pressure vessels for gases, liquids and solids.

Benton Harbor's results were poor, reflecting competitive pricing pressure and the disruptive effects of a move into new facilities. Steps have been taken to reduce costs and return the unit to profitability. Results at Pressed Steel Tank, although improved, continued to be negatively impacted by high manufacturing costs.

Machine Tools

The Giddings & Lewis General Purpose Machine Tool Division is a major manufacturer of machine tools and related products with plants in Wisconsin, Michigan and Scotland. G&L manufactures high precision, heavy-duty metal-cutting machinery and related tooling and accessories, computer controls and printed circuit boards, and is a leading producer of computer numerically controlled (CNC) machine tools. The Giddings & Lewis Systems & Controls Division has plants in Wisconsin, Michigan and Illinois. Products include automatic assembly machines, transferline machinery, CNC systems, programmable controllers and microcomputers for machine tools and other industrial applications. In combination, the two divisions make up a world class producer of flexible manufacturing systems for the factory-of-the-future concept of production.

Operations were profitable despite a generally weak market for general purpose machine tools and some performance problems in the systems end related to the applications of new technology. The general purpose machine tool market was affected in part by machines imported into the United States – a development helped by the strong U.S. dollar.

Precision-machined components such as this part for a helicopter rotor assembly are produced by Fenn as a subcontractor to customers in the aerospace industry.

An innovative multi-station machining center made by Giddings & Lewis is one of several in a production line for the automated manufacture of aircraft jet engines.

The General Purpose Machine Tool Division closed the year profitably but well below expectations with shortfalls shared by all profit centers. Bookings were less than planned, reflecting poor conditions in the industry. Though orders were up nominally over 1984, they were, as noted, below expectations. The Kaukauna plant in Wisconsin was mothballed as part of the division's effort to reduce overhead expenses. Products manufactured at this plant have been assigned to other G&L plants.

A number of important shipments were completed by the division including untended turning cells for the factory-of-the-future of a major aircraft engine manufacturer in Massachusetts. This project, like Gilman's Pontiac Fiero automated assembly system last year, received the Wisconsin Governor's New Product of the Year Award. In G&L's effort to keep its operations state-of-the-art, it continued to install additional CAD/CAM terminals to upgrade its own engineering and manufacturing operations.

For the G&L Systems & Controls Division results were significantly better than last year, but well below historical norms. The strongest business came from the U.S. automotive industry as production of new models increased through the year.

Recognizing that constant engineering attention is required to retain its technological leadership position, G&L continues to place heavy emphasis on research, development and automation, such as the flexible manufacturing system being installed at the Fond du Lac, Wis., plant.

Marine and Industrial Cranes

Clyde, located in Minnesota, designs and manufactures revolving *Whirley* cranes and specialized equipment for lifting and pulling extremely heavy loads. Unit Crane, part of the Clyde division, offers a line of pedestal cranes for offshore drilling and production platforms.

While faced with a tough market, heavily dependent on the oil, stevedoring and shipbuilding industries, Clyde fared reasonably well and closed the year profitably, aided by the award of several noteworthy contracts. Of particular significance was an order for a 4400-ton capacity *Whirley* crane for installation on what will be the world's largest mono-hull crane vessel, under construction in Europe. During the year a new offshore Mariner pedestal crane and an important new Clyde computer-controlled linear winch were introduced. The winches control tension on anchor cables used to secure and steady offshore platforms against the stress of wave and wind action. Other potential uses for the linear winch show promise.

With the good customer acceptance of its new products and the credibility of the Clyde and Unit names, this division sees improving potential for 1986.

Morgan/Provincial business experienced major improvement in 1985. The new combined operation benefited from capital investment programs in the Canadian, U.S. and Mexican steel industries, achieving bookings beyond expectation and returning the operation to profitability. Backlog of work entering 1986 is higher than this unit has experienced in recent years. As a result, progress is expected to continue.

Speedstar

Speedstar, located in Oklahoma, is a major supplier of water well drilling equipment in both domestic and international markets. The year was especially difficult for this unit as its traditional water well markets, both domestic and overseas, declined markedly. Third World countries, especially in the Middle East, reduced spending for rigs due to both the drop in oil income and the strong U.S. dollar. Domestic water well drilling contractors, whose businesses are tied to housing starts, were reluctant to commit themselves to major purchases in light of the problems that have been prevalent in this sector over the last three years.

Gilman, a unit of G&L Systems & Controls Division, makes automated systems that improve efficiency and accuracy in the assembly of parts for autos and other products.

Unit Mariner cranes are a product line that, in combination with larger Clyde equipment, makes AMCA a leading supplier to the offshore energy and construction industries.

New Speedstar drilling rig, one of the world's largest and fastest, permits greater cost effectiveness in well drilling.

Commercial projects like this shopping center in Toronto demonstrate the breadth of Dominion Bridge's steel fabrication-construction capabilities.

Results: *Sales of $237 million were 8 percent below 1984 while margins remained basically unchanged. Due to downsizing and cost reduction programs, last year's operating loss was turned into an operating profit of $3 million. In Western Canada, heavily dependent on natural resource industries, markets declined further in 1985. Markets in Eastern Canada, especially in Ontario, continued to improve, led by aluminum, automotive and steel industries. Manitoba Rolling Mills encountered increasing pricing pressure but improved sales and earnings primarily as a result of recent product diversification moves.*

Outlook: *The Canadian market is expected to show some improvement in 1986, particularly in Eastern Canada. Improved earnings should result from higher backlogs entering the year, continuing programs to improve productivity and the consolidation steps already taken. Manitoba Rolling Mills should have another strong year. All operations, however, will suffer from price pressures due to very competitive markets.*

Steel Products and Services

AMCA's Canadian operations, headquartered in Toronto, include: Eastern Canada (Toronto), Western Canada (Calgary), Manitoba Rolling Mills (Selkirk) and Dominion Bridge-Sulzer (Montreal). The operations consist of a number of fabricating facilities, a rolling mill, numerous steel service centers and a partnership in Dominion Bridge-Sulzer. Plants produce a range of products including structural steel, plate and specialty products and products for the electric utility, communications, resource mining and handling, transportation and petroleum markets. Construction operations provide worldwide project management, erection, installation and turnkey services. DB/McDermott, located in Nova Scotia, is a partnership with McDermott Incorporated to do research, engineering, fabrication and construction of offshore drilling and production platforms and installation of oil and gas marine pipelines in Canada.

Eastern Canada

Improved capital spending, particularly in automotive and steel-making sectors, made possible a significant increase in bookings and margins. As a result, the division has returned to profitability and current backlog levels provide a base for continuing improvement in 1986.

In addition, a plant modernization program was completed at Robb Engineering, allowing that unit to operate more efficiently at lower volume.

Dominion Bridge-Sulzer, a joint venture headquartered in Montreal, produces a wide variety of highly engineered products and offers a full range of construction services. AMCA has primary responsibility for the structural-mechanical and construction aspects of the business. Sulzer Brothers Ltd. is primarily responsible for nuclear and hydraulic power products.

The expected turnaround in demand for capital goods in Quebec, Dominion Bridge-Sulzer's primary source of contract work, did not materialize in 1985 although there was some upward movement. As a result, the joint venture was unable to operate profitably. There was improvement in the structural-mechanical business during the second half of the year, but its magnitude was such that it had little effect on the full year's performance.

The DB/McDermott partnership continued its dormancy, reflecting the oil exploration hiatus in Canadian waters.

Western Canada

Steel fabricating and construction services operations located in Alberta, Saskatchewan, Manitoba and British Columbia are in large part dependent upon the natural resource markets (oil and gas, mining, lumber) of Western Canada. Because of the worldwide uncertainty in energy markets, capital expenditures within these industries continued to be curbed and thus produced little activity, particularly in Alberta. Although changes in government policies concerning energy production have been announced and new investment has begun, these operations continue to function at reduced levels. Plants in Saskatchewan and Alberta were closed, reflecting the scarcity of orders and to reduce overall operating costs. Although general belt tightening and cost reduction moves since 1983 have led to improved results in 1985, the division remains unprofitable.

Manitoba Rolling Mills

Manitoba Rolling Mills (MRM) is a steel-producing mini-mill that manufactures special shapes, bars and light structural sections.

MRM continued to be a profitable operation with improved sales and earnings for the year. The total tonnage of finished products shipped was the second highest in MRM's history. In a move to bolster future sales, a multi-million dollar investment in new facilities was announced. This is part of a continuing program to improve MRM's production capabilities, allowing the unit to enter new markets with a broader product offering. It can now, for instance, offer additional low alloy steel grades, heavier sections and beam sections. To maintain its competitive edge, MRM has a continuing program aimed at greater cost reduction in both its rolling mill and melt operations.

Dominion Bridge is involved in expansion of several bridges that are part of CP Rail's track twinning project through rugged mountain terrain in Western Canada.

Over 32,000 tons of reinforcing bar, one of some 500 different shapes and sections made by Manitoba Rolling Mills, will be used in a major hydro project in northern Manitoba.

Productivity

During 1985, AMCA made significant gains in productivity and capacity utilization at its manufacturing facilities as a result of selective investments in equipment and facilities totaling $43 million. By way of illustration:

– The Koehring plant in Iowa was streamlined and equipped for high production of large fabricated components. The manufacture of Koehring cranes and excavators has been consolidated at this plant while production of service parts is now concentrated at the Tennessee plant, along with Clyde's Unit Crane products.

– Manitoba Rolling Mills' leadership position among steel mini-mills has been strengthened in technology, quality and cost effectiveness. A major program designed to broaden the range of MRM's high quality, diverse offering of custom shape products, totaling $9 million, was begun in 1985 and will continue into 1986.

– Both Stran and Varco-Pruden increased their capacity in 1985 by acquiring Republic Buildings and adapting existing plants for their products.

– Installation of computer numerically controlled (CNC) drilling equipment has reestablished Dominion Bridge-Ontario as one of the leading structural steel plants in Eastern Canada.

– Multi-spindle CNC profile machining capacity and other advanced machining systems were installed at Fenn Manufacturing. This equipment provides more cost effective methods of producing complex, high precision aircraft components. The Aerospace Division's productivity will be further improved with the installation of a new ring mill at Monroe Forgings. The new machine increases Monroe's capability to produce large, high quality rings of exotic materials for the aircraft engine market. Investment in this project will total $3.5 million.

– Giddings & Lewis-Fraser in Scotland is in the process of installing a large CNC vertical spindle machining center to establish that unit as the primary source for G&L products in the United Kingdom, Europe and the Eastern bloc countries.

– A major expansion was approved for the BOMAG plant in West Germany and a state-of-the-art welding robot is being installed to automate the welding of large fabricated components.

– Technological improvements have also been adopted to improve office productivity. Computer systems were upgraded at eleven offices during 1985 and CAD/CAM systems were installed at six more operating units.

Cost Reduction

Cost reduction continues to be a vital part of AMCA's operating philosophy. The Company's formal cost reduction program focuses on the savings available at all levels of the Company, producing continuing benefits in new practices and innovations.

Value analysis, an effective, project-oriented system of investigating the function and cost of each component of a product is used widely and has helped win bids for large contracts while producing more cost effective designs.

Innovation

To meet the ongoing need to provide customers with optimum value and efficiency, AMCA operating units continued to offer improvements in products and services. Among the more notable innovations introduced during 1985 were:

– various technological improvements to Giddings & Lewis machining centers and Gilman automated assembly systems;

– completion of redesign of the entire crane and excavator product line, accomplished over a three-year period;

– continuing increase in size and striking power of MENCK hydraulic pile hammers;

– introduction of new Anco/Votator computerized high-speed system for slicing and weighing bacon, utilizing a Giddings & Lewis programmable controller;

– new Cherry-Burrell capsule forming machine technology through product line acquisition;

– introduction of new Clyde computer-controlled linear winch system for offshore platforms;

– Koehring Canada's new tree felling saw head regarded as an industry leader;

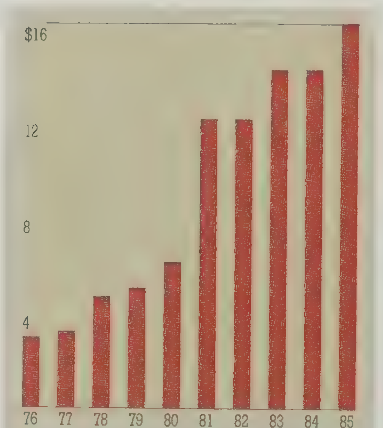
– new engineering, procurement, construction/installation services provided by Litwin in onshore/offshore oil and gas production systems and industrial temperature boosters that convert low temperature heat into a higher temperature form that can be utilized to reduce energy costs;

– continued refinement of computerized engineering/manufacturing capabilities by Varco-Pruden to offer more individualized designs in pre-engineered buildings.

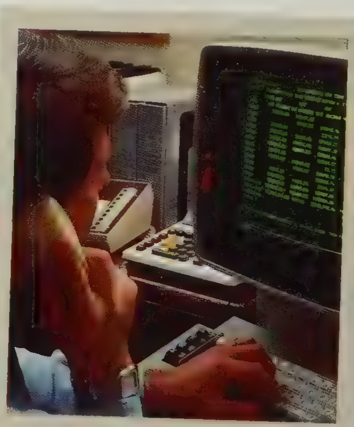
Research and Development

Helping AMCA units develop new products is a primary function of the Research & Technology Centre in Ottawa, Ont. While each unit develops its own products, the center provides solutions to manufacturing and application problems in such areas as metallurgy and materials, welding, corrosion, painting and numerical modeling and stress measurement.

In combination with operating unit engineers and technicians, corporate research and technology professionals help solve specialized problems involving construction projects and field replacement of equipment parts in varied environments. This joint expertise serves to improve product quality and reliability.



Research and Development Expenditures for Products, Processes and Systems
(In Millions)



An electronic communications network permits AMCA management to closely monitor business and financial activities on a worldwide basis.

As one step in the process of returning to profitability, many operating units lowered operating costs by reducing staff. Careful selectivity has resulted in a Company that is stronger yet leaner. In the process, AMCA continues to be mindful of the importance of its people. That awareness is expressed in progressive personnel practices and relatively low turnover rates. The Company feels that it has a seasoned and skilled work force and is confident that it is well positioned to take advantage of new business opportunities as the world economy continues to improve.

Labor Relations

Consistent efforts to promote harmonious relations with employees and bargaining units continue to produce accord in most sectors. Recognition by all parties that the Company has had to cope with reduced sales and margins, plus the insidious growth of foreign competition, continues to have a sobering influence. Evidence of that understanding is characterized by such actions as taken by workers at the Millersport, Ohio plant where employees voted to remain union-free in an election conducted by the National Labor Relations Board.

The Company position was upheld in a preponderance of arbitration decisions rendered in 1985. AMCA continues to experience a minimal number of arbitrations, indicative of good local union-management relationships that exist at most locations where the Company has been able to successfully settle differences in lieu of resolution by a third party.

During 1985, 14 collective bargaining agreements were renegotiated at AMCA manufacturing locations – eight in the United States and six in Canada. Settlements bettered national averages for the manufacturing sector in both countries.

Brief strikes occurred at Koehring Canada, Dominion Bridge-Winnipeg and Cherry-Burrell. In each instance, settlement resulted in no additional increase in either the annual or terminal cost of the Company's pre-strike final offer.

The AMCA Comprehensive Medical Plan now has been negotiated at 21 unionized plants in the United States. Under this plan, designed to contain the rapid escalation of medical costs, employees are provided with catastrophic medical coverage but share in their own health care costs.

As the general manufacturing sector continues to restructure and as worldwide competition remains strong, settlements in 1986 must continue to be responsive to the unique business conditions facing each operation. Another heavy bargaining year is scheduled for 1986 with ten labor agreements expiring in the United States, six in Canada and one in Germany. The construction industry in Canada will also be negotiating new contracts with the building trades in most provinces.

Management Development

AMCA's Executive Development Program was conducted in 1985 for the sixth consecutive year at Dartmouth College's Amos Tuck School of Business Administration. Twenty-two AMCA people graduated, bringing the total to 130 key employees who have completed this intensive four-week development program.

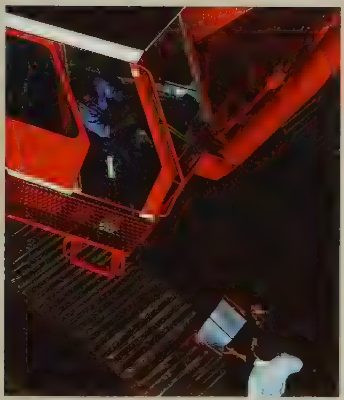
The number of key jobs filled by promotions from within the Company continues to run at a high 70 percent. Meanwhile selective recruitment of new management is also done on a planned basis to cross fertilize AMCA philosophies with techniques and experience acquired in other companies.

Health Care Cost Containment

The Company's effort to contain the escalating cost of health care was intensified with the introduction of benefit counselors at various profit centers. These people advise employees regarding the most cost-effective method of obtaining health care services. Communications programs were also initiated to heighten employee awareness of the need for prudent health care.

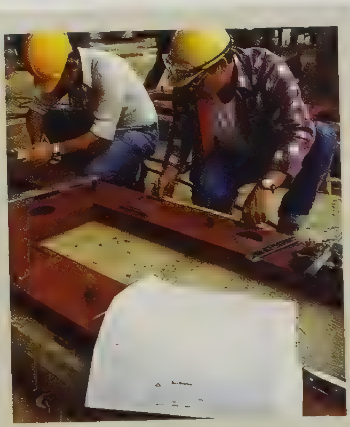
Pension Plan Consolidation

The Company has 16 salaried pension plans as a consequence of numerous acquisitions over recent years. To consolidate these pieces, a common master plan has been developed. The latter standardizes pertinent content, but benefit formulae will remain unchanged where it is deemed inadvisable to consolidate into a single formula. This consolidation will lower actuarial and pension consulting costs.



The Koehring line of excavators has undergone an extensive upgrading to keep pace with intense competitive pressures in the construction equipment market.

Negotiation of more than a dozen collective bargaining agreements during 1985 showed an understanding by workers and management of the realities of the business climate.



The formation of two new Litwin entities during 1985 is aimed at growth and diversification of services for the energy industry.

Over 500 production, processing and auxiliary systems designed and built by units of AMCA Engineers & Constructors around the world contribute to meeting energy needs.

In 1984 and 1983, AMCA provided for losses related to the discontinuance of several businesses. The results of operations for those businesses have been separately classified as discontinued operations in the Consolidated Statements of Operations. (See Note 2 to the Consolidated Financial Statements for details.) Accordingly, the following discussion and analysis deals with results from continuing operations only.

Results of Operations 1985-1984

Sales of $1,559 million increased nine percent from $1,426 million in 1984. Results from continuing operations before income taxes improved by $23.4 million from a loss of $11.4 million to income of $12 million. (It should be noted that 1984's results benefited from a pension refund of $9.8 million while 1985's interest expense was reduced by preferred share offerings in 1984 and 1985.)

The most significant improvement occurred in the construction equipment businesses which benefited from strong markets in North America, cost reduction and consolidation programs. The industrial products and metal building operations repeated their strong performances, also benefiting from a continuation of the relatively strong economy in North America. The Steel Products and Services segment returned to profitability, despite a lack of activity in Western Canada, as a result of consolidation programs and improved markets in Eastern Canada. In general, however, many businesses suffered from the strength for most of the year of the U.S. dollar and from uncertainty over oil prices and proposed tax reform in the U.S. These factors combined to limit exports from North America, caused delays or cancellations of major capital spending programs, and put pressure on prices and margins as the work awarded was subject to intense competition from both domestic and foreign sources.

Despite these conditions, the Company booked new work at a record level ($1.8 billion) and margins began to improve although remaining well below historical levels. AMCA ended the year with a backlog of $701 million, up from $555 million at December 31, 1984, with significant increases in the Construction Products and Engineering and Construction Services segments offsetting a decline in the Steel Products and Services segment due primarily to the lack of activity in Western Canada. Industrial Products backlog was basically unchanged despite a slowdown in new order activity in machine tool operations during the latter part of the year and the removal of the backlogs of several companies which have been, or are in the process of being, divested. Gross margins in backlog have improved but remain several percentage points below desired levels. Nevertheless, the combination of a higher backlog and the improvement in associated profit margins resulted in gross earnings in backlog at December 31, 1985, being approximately 40 percent higher than at December 31, 1984.

The major factors affecting the results of each segment were as follows (see Note 11 to the Consolidated Financial Statements for details):

Construction Products. Sales of $275 million and operating profits of $22 million were markedly better than 1984 but still below target levels. The Compaction Equipment Division achieved significant profitability with strong markets in North America and Great Britain. Crane and excavator sales and earnings were improved but still negatively affected by intense price competition. A $55 million crane order from the U.S. Army will be delivered over several years. Cost reductions, closure of the Milwaukee plant and consolidation into an expanded Iowa plant assisted in the division's return to profitability. Operating results and new order activity were strong in the material handling and woodlands equipment operations.

Engineering and Construction Services. Sales of $444 million were up over 1984 but margins were lower. As a result, earnings of $21 million were unchanged. The pre-engineered building market held strong through the year but heavy competition resulted in reduced margins. In addition, Stran encountered operating problems related to the start-up of a new plant and the implementation of several new major engineering and manufacturing systems. JESCO again reported record operating results. Litwin Engineers & Constructors had an improved year in new construction and retrofit activities. Disappointing performances at IMODCO and Litwin S.A. were due to delays in awarding of major contracts. However, both had strong bookings during the second half. Sales and earnings at MENCK were up and several large orders were booked late in the year.

Industrial Products. Sales of $568 million and earnings of $30 million improved over 1984 by 17 percent and 11 percent, respectively. Aerospace, automotive and general industrial markets experienced continued strength. Giddings & Lewis machine tool operations were significantly improved over 1984 as a result of strong bookings early in the year but still performed well below historical levels. The strong U.S. dollar, uncertainty over proposed tax reform in the U.S. and general sluggishness in the capital goods sector in North America resulted in a slowdown in order activity during the second half. Cherry-Burrell continued its excellent profitability. Speedstar's performance suffered from low activity in its traditional Middle Eastern markets.

Steel Products and Services. Sales of $237 million were eight percent below 1984 while margins remained basically unchanged. Due to downsizing and cost reduction programs, last year's operating loss was turned into an operating profit of $3 million. In Western Canada, heavily dependent on natural resource industries, markets declined further in 1985. Markets in Eastern Canada, especially in Ontario, continued to improve, led by aluminum, automotive and steel industries. Manitoba Rolling Mills encountered increasing pricing pressure but improved sales and earnings primarily as a result of recent product diversification moves.

Financial, Marketing and Licensing Services. Domestic financing activity increased primarily as a result of the strong North American compaction and construction equipment markets. The strong U.S. dollar for most of the year inhibited international financing activities for Company products exported from North America. International trading activities also suffered as a result of a slow world economy and lower oil prices in particular. The Company benefited, however, from favorable foreign exchange and chemical trading activities.

Equity in pre-tax earnings of unconsolidated subsidiaries decreased from $4.6 million to $2.4 million. Despite an increase in financing activity related to improved construction equipment sales, earnings from the U.S. finance subsidiary declined as a result of lower interest rates. Partially offsetting this decline, DB-Sulzer's loss was reduced considerably as a result of the restructuring which was effected in mid-1984.

Selling, general and administrative expenses increased by four percent but declined as a percentage of sales from 16.8 to 15.9 percent as cost reduction programs continue to generate results.

Depreciation and amortization increased by $2 million due primarily to the impact of higher manufacturing activity at those locations which determine depreciation on the unit-of-production basis (principally machine tool businesses).

Net interest expense decreased by 17 percent from $43 million to $35 million; the effects of a $155 million preferred share offering in November 1984 and the $55 million preferred share issue in August 1985 were partially offset by increased borrowings required to support operations as described further in the Liquidity and Capital Resources section.

Foreign currency transaction gains decreased by $2 million as gains on foreign currency holdings of the international finance and trading companies were partially offset by losses related to the continued weakness of the South African rand and Australian dollar. The 1984 gains stemmed from activity related to the late-1983 DM 100 million debenture offering. The Company avoided losses associated with that instrument in 1985 by purchasing and investing DM 100 million at the end of 1984.

Income taxes recoverable ($4.8 million on income from continuing operations before income taxes of $12 million) resulted principally from losses in the United States, the benefits for which were recorded as reductions of deferred income taxes, partially offset by earnings in taxing jurisdictions with lower tax rates. No tax benefits were recorded on Canadian losses in 1985 or 1984 as there were no available deferred tax credits. At the end of 1985, there were also no further credits available in the U.S.

Results of Operations 1984-1983

Sales of $1,426 million increased 17 percent from $1,214 million in 1983. Results from continuing operations before income taxes improved from a loss of $43.2 million in 1983 to a loss of $11.4 million in 1984. Included in the results for 1984 is a $9.8 million refund of a surplus in the Company's Canadian pension funds. This amount, which is shown in Other Revenues in the Consolidated Statements of Operations, had previously been charged to expense and is excess to future funding requirements.

Results from continuing operations improved from a loss of $3.6 million in 1983 to income of $5.1 million in 1984. In 1983 the Company recorded tax benefits for Canadian operating losses as reductions of deferred income taxes while, in 1984, tax benefits of $8.7 million (which would have increased income from continuing operations accordingly) were not reflected in the accounts as there were no further deferred income taxes available in Canada.

In general, AMCA's construction products, industrial products and metal building businesses benefited from the continued general recovery in North America. Businesses dependent upon worldwide energy markets, primarily engineering and Western Canadian steel fabrication operations, continued to perform poorly, reflecting continued weakness in these markets stemming primarily from lower natural resource prices. In addition, the strength of the U.S. dollar hurt the ability of the Company's U.S. operations to export and made imported products more price competitive.

AMCA ended the year with a backlog of $555 million, up from $538 million at December 31, 1983, as increases in the Industrial Products segment (primarily aerospace and machine tool operations) more than offset decreases in Steel Products and Services and Construction Products segments.

The major factors affecting the results of each segment were as follows:

Construction Products. Sales and operating profit increased by 29 percent and 208 percent, respectively, with all operations experiencing improved results. Increased sales of compaction equipment in North America more than offset low activity in the Middle and Far East. Sales of cranes and excavators increased significantly from the very low level of 1983 but remained well below historical levels and margins continued to be affected by severe discounting resulting from intense competition. Sales and earnings of the woodlands equipment business increased significantly, reflecting improved activity in the lumber and paper industries in Western Canada.

Engineering and Construction Services. Sales increased 33 percent resulting in an operating profit of $20.9 million compared with an operating loss of $1.8 million in 1983. Metal building sales and operating profit improved significantly over 1983 due to improved market conditions and the acquisition of Stran and Quonset in late 1983. Results of remaining businesses were improved overall from those of 1983 but continued to be negatively affected by continued weakness in worldwide energy and petrochemical industries and minimal activity in offshore petroleum and marine fabricating sectors.

Industrial Products. Sales of $486 million and operating profit of $27.3 million each increased nine percent from 1983 levels, reflecting general improvement in capital goods markets and particularly strong aerospace and automotive industries. Giddings & Lewis machine tool operations experienced significant increases in sales and bookings from the low levels of 1983 but profitability did not increase accordingly as pricing and margins were affected by the competitive environment. Fluid power and processing and packaging machinery operations all benefited from the general recovery while results of businesses dependent upon the energy sector (offshore cranes and well drilling equipment) worsened from those of 1983 as a result of worldwide market weakness.

Steel Products and Services. Sales of $256 million were up three percent over 1983 but lower margins resulted in an operating loss of $1.9 million compared with a loss of $521,000 in 1983. Western Canada steel fabrication operations, which are heavily dependent upon natural resource markets, experienced lower sales and significantly larger losses than in 1983. Eastern Canadian operations performed on a comparable basis with 1983 and began to show improvement toward the end of the year. Sales and operating profit at Manitoba Rolling Mills improved significantly over 1983 but depressed prices still prevailed as a result of excess capacity in the steel industry.

Financial, Marketing and Licensing Services. Operating profit after eliminations declined to $2.8 million from $10.1 million in 1983, primarily as a result of reduced international product financing and trading activity as the strength of the U.S. dollar and the sluggish economic recovery of the international sector combined to restrict export sales from North America. Results were also impacted by an equity investment by AMCA Netherlands B.V. in its U.S. subsidiary at the end of 1983 which reduced cash available for lending by the international finance company during 1984.

Equity in pre-tax earnings of unconsolidated subsidiaries increased from $1.8 million in 1983 to $4.6 million in 1984 as higher

earnings at the U.S. finance subsidiary, related to improved construction equipment sales, more than offset the write-off of the Company's interest in Halifax Industries Ltd., a Nova Scotia shipyard.

Selling, general and administrative expenses increased by six percent from $226 million in 1983 to $239 million but declined as a percentage of sales from 18.6 to 16.8 percent. The Company's cost reduction programs are generating savings which have reduced the impact of increased selling expenses associated with significantly higher sales level and have helped offset one-time expenses which were incurred in conjunction with consolidation and retrenchment of certain operations other than those discontinued. Similar activities were carried out during 1983.

Net interest expense increased eight percent to $42.8 million from $39.6 million in 1983. The impact of a $60 million preferred share offering in December 1983 was more than offset by increased borrowings for most of 1984 and increased interest rates during most of the second half. A $155 million preferred share offering in November 1984 had the effect of reducing interest expense by approximately $2.5 million.

Foreign currency transaction gains of $3.5 million in 1984 resulted primarily from conversion of proceeds from the 1983 Deutsche Mark Bond issue to U.S. dollars at favorable exchange rates when the mark strengthened during the early part of the year and a decline in the U.S. dollar value of the Deutsche Mark denominated debt as the U.S. dollar subsequently strengthened. The Company eliminated further exchange exposure related to these bonds by purchasing and investing DM 100 million at rates comparable to those of the bonds.

Income taxes recoverable ($16.5 million on a loss from continuing operations before income taxes of $11.4 million) resulted from: 1) losses in tax jurisdictions with higher tax rates (United States), the benefits for which were recorded as reductions of deferred income taxes, partially offset by earnings in taxing jurisdictions with lower tax rates, and 2) adjustments of prior years excess accruals. As noted above, no tax benefits were recorded on Canadian losses as there were no available deferred tax credits in Canada.

Liquidity and Capital Resources

The ratio of current assets to current liabilities changed from 2:1 at December 31, 1984 to 1.9:1 at December 31, 1985. Total working capital of $333 million remained essentially unchanged from the prior year as increases in cash (net of short-term borrowings) and net current assets of businesses to be disposed were roughly balanced by an increase in current installments of long-term debt (which the Company anticipates will be repaid from cash on hand and proceeds from the sale of assets).

Operating working capital (which excludes cash, short-term borrowings, current installments on long-term debt and assets of businesses to be disposed) increased by approximately $30 million, primarily accounts receivable, reflecting higher sales levels. During 1985, the Company met its cash needs (including the above-mentioned operating working capital buildup, fixed asset purchases of $43 million and preferred share dividends of $21 million) from a $55 million preferred share issue (the proceeds from which were partially used to repay short-term borrowings in Canada and the remainder temporarily invested), a DM 150 million debenture issue (the proceeds from which were used to repay revolving credit bank notes in the U.S.) and from proceeds from sales of assets of businesses disposed. In connection with the sale of a portion of the Company's interest in its consumer products business in March 1985 (the net assets of which were included in net assets of businesses to be disposed at December 31, 1984) the Company has guaranteed the debt of the new venture up to a maximum of $45 million. At December 31, 1985, the amount of such debt outstanding was $19 million.

The ratio of equity to long-term debt improved from 1.3:1 at December 31, 1984 to 1.5:1 at December 31, 1985; equity increased by roughly the amount of the preferred share issue as preferred dividend payments were offset by net income and a reduction in the equity adjustment from unrealized currency translation losses.

During the year the Company continued its debt restructuring program by converting variable rate debt to fixed rate debt or to debt whose rate can be immediately fixed at any time at the option of the Company. As a result of this program, at December 31, 1985, AMCA had $130 million of "pure" floating rate debt, $35 million of which was repaid immediately after year-end from proceeds from divestitures.

At December 31, 1985, the Company had available approximately $235 million of unused credit facilities ($190 million of revolving bank lines and $45 million of demand bank lines, in each case available upon demand subject to conditions, all with interest calculated at prevailing market rates), compared to $344 million at the end of 1984. (During the year AMCA cancelled or reduced certain facilities excess to its needs.) In addition, the Company has unconsolidated subsidiaries which finance the sale of Company products to distributors and end users and which had available approximately $91 million of unused credit facilities. If these subsidiaries had been consolidated at December 31, 1985, AMCA's working capital would have been higher by $70 million, resulting in a current ratio of 1.8:1, and its long-term debt would have increased by $56 million, resulting in an equity to long-term debt ratio of 1.3:1. Additional factors bearing on the Company's liquidity include: 1) $117 million of net assets of businesses to be disposed which the Company expects to convert to cash ($85 million of which is estimated to be converted in 1986 and the remainder over a period of several years thereafter) and, 2) net operating loss carryforwards for tax purposes of $303 million in the U.S. and $48 million in Canada, meaning the Company will not pay any taxes on taxable income in those jurisdictions up to those amounts. AMCA believes that its unused credit facilities, together with the factors noted above, are adequate for the foreseeable future.

Nevertheless, in order to conserve cash to support operations, the Board of Directors chose not to declare cash dividends on the common shares during 1985. A common stock dividend of $0.25 per share was paid in the third quarter of 1985 to maintain the Company's eligibility for investment by certain financial institutions in Canada.

The Company plans to invest approximately $50 million in new plant and equipment in 1986. This will be financed from available cash on hand and cash generated from operations. There were no material commitments for capital expenditures as of December 31, 1985.

	1985	1984
Operating Results ($ Millions)		
Sales	**1,559**	1,426
Income (loss) from continuing operations before income taxes	**12**	(11)
Income taxes (benefit)	**(5)**	(16)
Income (loss) from continuing operations	**17**	5
Discontinued operations	**–**	(7)
Net income (loss)	**17**	(2)
Cash dividends	**21**	41
Income retained (utilized)	**(4)**	(43)
Financial Condition and Ratios ($ Millions)		
Working capital	**333**	329
Current ratio %	**1.9**	2.0
Total assets	**1,387**	1,317
Net fixed assets	**250**	289
Depreciation	**29**	26
Additions to fixed assets	**43**	28
Long-term debt	**395**	412
Shareholders' equity	**591**	539
Return on average common shareholders' equity %	**–**	–
Net income on sales %	**1.1**	–
Per Common Share Data ($)		
Sales	**45.83**	41.98
Income (loss) from continuing operations	**(0.12)**	(0.06)
Discontinued operations	**–**	(0.20)
Net income (loss)	**(0.12)**	(0.26)
Common dividends paid in cash	**–**	1.00
Income retained (utilized)	**(0.12)**	(1.24)
Book value per common share	**9.45**	9.71
Shareholders and Employees		
Number of common shareholders	**4,898**	5,362
Number of employees	**15,426**	16,226
Number of common shares outstanding (thousands)	**34,014**	33,342

Per common share data, except book value, have been calculated based upon the weighted average shares outstanding during each year and have been restated for years prior to 1985 to give retroactive effect to the common stock dividend paid during 1985.

Income (loss) from continuing operations and net income (loss) per common share are calculated by deducting dividends applicable to preferred shares from the respective amounts and dividing the result by the weighted average common shares outstanding during each year. Book value per common share has been calculated by deducting preferred shares from shareholders' equity and dividing the result by the common shares outstanding at each year end.

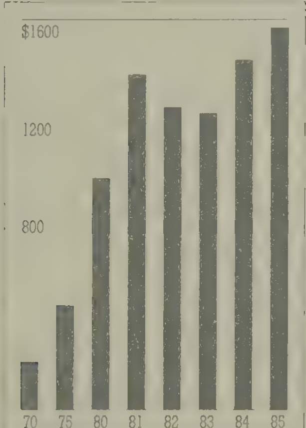
The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. If accounting principles generally accepted in the United States were applied, the only change in the above numbers would be that $59 million of Redeemable Preferred Shares Series 1 issued in 1983 and $55 million of Redeemable Preferred Shares Series 3 issued in 1985 would not be classified in the shareholders' equity caption but would be shown separately. See Note 15 to the Consolidated Financial Statements.

The above data reflect the acquisition of Giddings & Lewis, Inc., effective August 1, 1982; of Koehring Company, effective September 1, 1980, and of Amtel, Inc., effective December, 1977.

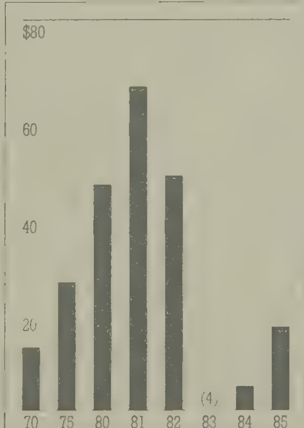
*For purposes of this summary includes 4,474 at Giddings & Lewis.

U.S. Dollars							Canadian Dollars
1983	1982	1981	1980	1979	1978	1977	1976
1,214	1,239	1,373	944	868	823	521	456
(43)	44	110	69	79	66	45	43
(39)	(4)	44	23	24	31	15	18
(4)	48	66	46	55	35	30	25
(35)	–	4	3	(2)	1	3	4
(39)	48	70	49	53	36	33	29
33	29	27	23	17	11	9	10
(72)	19	43	26	36	25	24	19
246	254	346	235	263	171	107	104
1.6	1.5	1.7	1.6	2.0	1.7	1.5	1.7
1,250	1,374	1,212	970	729	602	551	361
300	326	198	181	106	124	128	108
25	23	19	14	13	13	9	8
22	30	51	28	13	18	9	16
380	340	297	163	115	139	104	31
443	462	368	334	309	198	181	161
–	11.5	20.0	15.2	20.9	19.0	19.3	19.0
–	3.9	5.1	5.2	6.1	4.4	6.3	6.4
35.88	42.47	49.88	34.36	36.18	37.44	23.75	20.81
(0.11)	1.64	2.39	1.68	2.29	1.59	1.37	1.14
(1.05)	–	0.16	0.10	(0.07)	0.05	0.13	0.18
(1.16)	1.64	2.55	1.78	2.22	1.64	1.50	1.32
1.00	1.00	1.00	0.85	0.71	0.51	0.44	0.49
(2.14)	0.66	1.57	0.94	1.54	1.14	1.09	0.87
11.51	14.06	13.70	12.43	11.61	9.28	8.51	7.58
5,809	6,766	5,733	5,810	4,397	3,859	3,835	3,688
15,408	16,748	21,779*	16,235	13,336	13,595	8.995	10,313
33,226	32,887	26,891	26,853	26,630	21,329	21,268	21,250

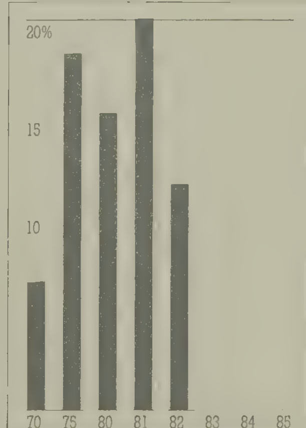
Record of Growth



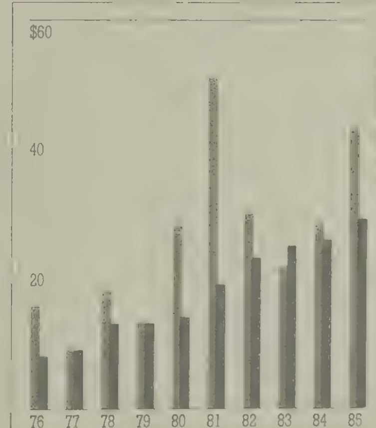
Sales
(In Millions)



Income from Continuing Operations
(In Millions)



Return on Average Common Shareholders' Equity (%)



Capital
Expenditure
Depreciation
(In Millions)

Years ended December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)

	1985	1984	1983
Revenues			
Sales	**$1,558,683**	$1,425,783	$1,214,382
Equity in pre-tax earnings of unconsolidated subsidiaries and affiliates (Note 4)	**2,391**	4,629	1,831
Other (Note 10)	**–**	9,807	–
	1,561,074	1,440,219	1,216,213
Costs and Expenses			
Cost of sales	**1,228,473**	1,137,137	957,351
Selling, general and administrative expenses	**248,519**	238,869	225,598
Depreciation and amortization	**38,244**	36,349	36,523
Interest – net (Note 8)	**35,297**	42,782	39,575
Foreign currency transaction (gain) loss	**(1,493)**	(3,471)	376
	1,549,040	1,451,666	1,259,423
Income (Loss) from Continuing Operations before Income Taxes	**12,034**	(11,447)	(43,210)
Income tax benefit (Note 3)	**(4,754)**	(16,514)	(39,605)
Income (Loss) from Continuing Operations	**16,788**	5,067	(3,605)
Discontinued Operations (Note 2)			
Loss from operations (less income tax benefit of $2,627 in 1984 and $12,126 in 1983)	**–**	(3,162)	(13,089)
Loss on disposal (less income tax benefit of $3,157 in 1984 and $20,400 in 1983)	**–**	(3,560)	(22,600)
	–	(6,722)	(35,689)
Net Income (Loss)	**$ 16,788**	$ (1,655)	$ (39,294)
Net Income (Loss) Per Common Share (Note 1)			
Continuing operations	**$(.12)**	$(.06)	$ (.11)
Discontinued operations	**–**	(.20)	(1.05)
Net Loss	**$(.12)**	$(.26)	$(1.16)

Consolidated Statements of Retained Earnings

Years ended December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)

	1985	1984	1983
Balance at Beginning of Year	**$ 197,836**	$ 243,368	$ 316,916
Net income (loss)	**16,788**	(1,655)	(39,294)
	214,624	241,713	277,622
Dividends			
Common shares			
Common stock – $.25 per share (Note 9)	**8,337**	–	–
Cash – $1.00 per share	**–**	33,298	33,184
Preferred shares			
8.84% Preferred shares – Series 1	**4,796**	5,408	–
9.5% Preferred shares – Series 2	**14,155**	1,916	–
9.25% Preferred shares – Series 3	**1,907**	–	–
Expenses related to issue of preferred shares net of income taxes of $859 in 1983 (Note 9)	**1,554**	3,255	1,070
Balance at End of Year	**$ 183,875**	$ 197,836	$ 243,368

See accompanying notes.

Years ended December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)

	1985	1984	1983
Cash Provided From (Used By) Operating Activities			
Continuing operations			
Income before net interest expense	**$ 52,085**	$ 47,849	$ 35,970
Add (deduct) items not affecting cash			
Depreciation	**28,591**	26,468	25,418
Amortization	**9,653**	9,881	11,105
Deferred income taxes	**(14,135)**	(22,923)	(41,273)
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	**(814)**	130	819
	75,380	61,405	32,039
Cash used by discontinued operations	**–**	(4,942)	(52,846)
Net decrease (increase) in non-cash working capital balances related to operations	**(34,030)**	(118,739)	146,173
Other	**(8,275)**	(9,988)	–
	33,075	(72,264)	125,366
Cash Provided From (Used By) Investment Activities			
Additions to property, plant and equipment	**(43,315)**	(28,259)	(22,358)
Net proceeds from disposal of assets	**30,705**	5,924	4,606
Other	**(4,664)**	(5,436)	6,758
	(17,274)	(27,771)	(10,994)
Cash Provided From (Used By) Financing Activities			
Additions to long-term debt	**166,523**	92,300	122,115
Repayments of long-term debt	**(136,839)**	(85,873)	(54,682)
Increase in long-term investment	**–**	(31,841)	–
Issue of share capital, net of expenses and repurchases	**52,960**	153,104	61,721
Dividends paid in cash – common shares	**–**	(33,298)	(33,184)
Dividends paid in cash – preferred shares	**(20,858)**	(7,324)	–
Interest – net	**(35,297)**	(42,782)	(39,575)
Other	**(3,719)**	(4,077)	–
	22,770	40,209	56,395
Increase (Decrease) in Net Cash During the Year	**38,571**	(59,826)	170,767
Net Cash at Beginning of Year	**6,172**	65,998	(104,769)
Net Cash at End of Year	**$ 44,743**	$ 6,172	$ 65,998
Increase (Decrease) in Net Cash			
Cash and short-term deposits	**$ 18,874**	$ (52,937)	$ 67,648
Short-term borrowings	**19,697**	(6,889)	103,119
	$ 38,571	$ (59,826)	$170,767

See accompanying notes.

December 31, 1985 and 1984
(In thousands of U.S. dollars)

	1985	1984
Assets		
Current assets		
Cash and short-term deposits	**$ 83,363**	$ 64,489
Accounts and notes receivable less allowance for doubtful accounts – $11,402 (1984 – $15,450) (Note 1)	**248,989**	201,624
Inventories (Note 5)	**289,392**	323,279
Net assets of businesses to be disposed (Note 2)	**85,107**	58,147
Other current assets	**9,279**	15,019
Total current assets	**716,130**	662,558
Long-term investment (Note 7)	**40,530**	31,841
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 4)	**71,566**	71,593
Fixed assets (Note 6)	**250,053**	288,917
Patents and intangibles (Note 1)	**45,854**	52,775
Goodwill (Note 1)	**122,062**	124,033
Other assets, including deferred income taxes of $75,603 (1984 – $47,639) (Note 3) and net assets of businesses to be disposed of $32,808 in 1985 (Note 2)	**141,127**	85,030
	$1,387,322	$1,316,747
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 7)	**$ 38,620**	$ 58,317
Accounts payable and accrued liabilities	**210,222**	207,558
Customer advances	**69,403**	59,638
Income taxes		
Current	**–**	480
Deferred	**2,301**	1,532
Current installments on long-term debt	**62,384**	5,927
Total current liabilities	**382,930**	333,452
Long-term debt (Note 7)	**395,205**	412,071
Deferred liabilities	**17,865**	31,809
	796,000	777,332
Shareholders' equity (Note 9)		
Preferred shares – Series 1 Issued – 2,955,000 shares (1984 – 3,000,000)	**59,446**	60,270
Convertible preferred shares – Series 2 Issued – 8,165,000 shares	**155,278**	155,278
Preferred shares – Series 3 Issued – 3,000,000 shares	**55,290**	–
Common shares Issued – 34,014,481 shares (1984 – 33,341,827)	**191,200**	182,815
Retained earnings	**183,875**	197,836
	645,089	596,199
Equity adjustment from foreign currency translation (Note 1)	**(53,767)**	(56,784)
Total shareholders' equity	**591,322**	539,415
	$1,387,322	$1,316,747

On behalf of the Board
Kenneth S. Barclay, Director
Dalton D. Ruffin, Director

See accompanying notes.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)

1. Summary of Significant Accounting Policies

General.
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These accounting principles are in conformity with accounting principles generally accepted in the United States except as indicated in Note 15.

Consolidation.
All subsidiary companies except the wholly-owned finance subsidiaries, AMCA International Finance Corporation ("AIFC") and AMCA International Finance Limited ("AIFL"), are consolidated and all significant intercompany accounts and transactions between consolidated companies have been eliminated. The investments in AIFC, AIFL, other joint ventures and affiliated companies owned 20% to 50% are recorded at equity in the underlying net assets and the applicable years' earnings or losses are included in consolidated income.

Consolidated statements of changes in financial position for the years ended December 31, 1984 and 1983 have been restated to a cash basis format.

Construction Contracts.
For financial statement purposes, income on substantially all construction contracts is recognized on the percentage-of-completion basis; provision is made for the entire amount of expected losses, if any, in the period in which such losses are first determinable. Included in accounts receivable are unbilled receivables related to these contracts of $94,733 (1984 – $36,429).

Inventories.
Work-in-process related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage-of-completion of individual contracts. Other inventories are stated at the lower of cost (average or first-in, first-out) or net realizable value.

Fixed Assets.
Property, plant and equipment are carried at cost including interest incurred during the construction period. Major renewals and betterments are capitalized; maintenance and repairs are expensed as incurred. Cost of property sold or otherwise disposed and related accumulated depreciation are removed from the accounts at the time of disposal and any resulting gain or loss is included in income. Depreciation of plant and equipment is determined principally on a straight-line or unit-of-production basis over the estimated useful lives of the assets.

Goodwill.
Goodwill is amortized using the straight-line method over a period not exceeding 40 years. Accumulated amortization was $18,122 and $14,807 at December 31, 1985 and 1984, respectively.

Patents and Intangibles.
Patents and other intangible assets are carried at cost and amortized over their remaining economic lives which range principally from three to 25 years. Accumulated amortization was $23,445 and $18,003 at December 31, 1985 and 1984, respectively.

Income Taxes.
Income taxes have not been provided on undistributed earnings of foreign subsidiaries since management expects such earnings to be permanently reinvested in those subsidiaries. At December 31, 1985 and 1984, approximately $62,000 and $78,000, respectively, of such earnings, if distributed as dividends, would be subject to income taxes aggregating approximately $10,000 and $10,500, respectively. Any additional undistributed earnings would not be subject to income taxes if distributed as dividends.

In 1985, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants with regard to accounting for investment tax credits. Accordingly, investment tax credits of $950 in 1985 have been deferred and will be amortized to income over the same period as the related assets. Prior to 1985, they were applied to reduce the provision for income taxes in the year in which the related assets were placed in service. These amounted to $1,039 and $824 in 1984 and 1983, respectively. If this accounting change had been retroactively applied, the impact on the net loss in 1984 and 1983 would be immaterial.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation.
All assets and liabilities are translated into U.S. dollars using current exchange rates and income statement items are translated using weighted average exchange rates for the year. The translation adjustment is included as a component of shareholders' equity whereas gains and losses on foreign currency transactions are included in income except for those related to long-term monetary assets or liabilities which are deferred and amortized to income over the remaining life of the monetary item.

The following table shows the changes in the equity adjustment from foreign currency translation for the years ended December 31, 1985, 1984 and 1983:

	1985	1984	1983
Balance at beginning of year	**$56,784**	$42,716	$33,016
Net effect of currency translation adjustments	**(3,017)**	14,068	9,700
Balance at end of year	**$53,767**	$56,784	$42,716

Earnings Per Common Share.
Earnings per common share are calculated by deducting dividends applicable to preferred shares from net income and dividing the result by the weighted average shares outstanding during the year (1985 – 34,012,648 shares; 1984 – 33,964,772 shares; 1983 – 33,850,261 shares). The number of common shares and earnings per common share for 1984 and 1983 have been restated to give retroactive effect to the common stock dividend paid by the Company during 1985. The exercise of outstanding stock options and the conversion of convertible preferred shares would not reduce reported earnings per common share.

2. Disposals

A. Discontinued Operations.
During 1984 and 1983, the Company decided to discontinue its involvement in consumer products, oil field equipment and certain crane businesses.

In 1984, the Company provided for losses related to the discontinuance of its consumer products business previously included in the Financial, Marketing and Licensing Services segment. As a result of this decision, a charge of $3,560 net of income taxes of $3,157 was recorded. A portion of the Company's interest in this business was sold in March 1985 for cash proceeds of $26,991. In connection with the sale, the Company has temporarily retained a 40% common share interest, a convertible preferred share interest and has guaranteed the debt of the new venture up to a maximum of $45 million. At December 31, 1985 the amount of such debt outstanding was approximately $19 million.

In 1983, the Company provided for losses related to the discontinuance of the rest of the businesses described above. As a result of this discontinuance, a charge of $22,600 net of income taxes of $20,400 was recorded. A substantial portion of the assets of these businesses has been disposed of or liquidated with no additional gain or loss.

The results of operations for these businesses have been separately classified as discontinued operations in the consolidated statements of operations. Revenues of the discontinued businesses for the years ended December 31, 1984 and 1983 were $58,938 and $85,666, respectively.

B. Divestitures and Restructuring.
In late 1985 the Company decided to sell a number of small operating units which are not compatible with the Company's present position or future plans. These companies, which had been acquired as part of three major acquisitions, are individually insignificant to the Company's results and in total comprise less than 10 percent of the Company's 1985 consolidated sales. The operating results of these units are included primarily in the Industrial Products segment (see Note 11 for related sales and operating profits). The proceeds from these dispositions will be approximately equal to their net book value of $85,412 and will be used to reduce debt. The assets and liabilities of these businesses at December 31, 1985 amounted to $104,357 and $18,945, respectively.

In addition, in 1984 the Company decided to consolidate its hydraulic excavator product line into a more modern plant and as a result decided to close a Koehring manufacturing facility. Costs associated with this closedown approximated $12,000 and were offset by reserves recorded at the time of the Koehring acquisition. The consolidation has been completed with no additional gain or loss.

The remaining assets and liabilities of all these businesses have been combined in the accompanying consolidated statements of financial position and designated as net assets of businesses to be disposed.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

3. Income Taxes

The provision (benefit) for income taxes on income (loss) from continuing operations is comprised of the following:

	1985	1984	1983
Current			
Canada	**$ (685)**	$ (155)	$ (372)
United States	**934**	1,000	500
Other countries	**8,493**	8,430	12,289
	8,742	9,275	12,417
Deferred			
Canada	**639**	(358)	(14,109)
United States	**(12,759)**	(23,877)	(34,522)
Other countries	**(1,376)**	(1,554)	(3,391)
	(13,496)	(25,789)	(52,022)
	$ (4,754)	$(16,514)	$(39,605)

The related income (loss) from continuing operations before income taxes is as follows:

	1985	1984	1983
Canada	**$ (8,323)**	$(20,630)	$(29,715)
United States	**(33,682)**	(42,856)	(71,408)
Other countries	**54,039**	52,039	57,913
	$ 12,034	$(11,447)	$(43,210)

The deferred income tax benefit from continuing operations represents the tax effect of transactions reported in different periods for financial and income tax reporting purposes, and resulted from the following timing differences:

	1985	1984	1983
Reduction of deferred income taxes to reflect benefit for U.S. losses and, in 1983, Canadian losses	**$(12,759)**	$(23,877)	$(48,912)
Construction contracts	**507**	(1,507)	(1,106)
Other	**(1,244)**	(405)	(2,004)
	$(13,496)	$(25,789)	$(52,022)

The difference between the Company's effective income tax rate and the Canadian and United States statutory rate on income (loss) from continuing operations is reconciled below:

	1985	1984	1983
Canadian and U.S. statutory rate	**46.0%**	(46.0)%	(46.0)%
State and provincial income taxes	**3.4**	4.7	(.6)
Investment tax credit	**–**	(8.8)	(1.9)
Foreign taxes at less than statutory rate	**(150.7)**	(143.8)	(43.4)
Adjustment of prior years' excess accruals	**(7.2)**	(24.9)	–
Canadian operating losses without tax benefit	**29.4**	76.3	–
Difference in book-tax asset basis due to purchase accounting	**45.6**	–	–
Other	**(6.0)**	(1.8)	.2
	(39.5)%	(144.3)%	(91.7)%

At December 31, 1985, for income tax purposes, the Company has U.S. net operating loss carryforwards of approximately $303,000 which expire between 1998 and 2000 and Canadian net operating loss carryforwards of approximately $48,000 of which $11,000 expires in 1987 and the balance between 1990 and 1992. For book purposes, the benefits for U.S. operating losses from continuing operations have been reflected in the consolidated statements of financial position as reductions of deferred income taxes.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

3. Income Taxes (Continued)
Tax benefits for Canadian operating losses in 1983 were treated in a similar manner while tax benefits of $3,500 and $8,737 on 1985 and 1984 operating losses, respectively, have not been reflected in the accounts as there were no further deferred income taxes available. The net debit related to deferred income taxes included in the consolidated statements of financial position reflects tax benefits on losses related to discontinued operations and differences arising from purchase accounting in the basis of certain assets and liabilities, for financial reporting and tax purposes, in excess of deferred income tax credits.

4. Investments In and Advances To Unconsolidated Subsidiaries and Affiliates
Investments totalled $57,325 and $56,249 and advances totalled $14,241 and $15,344 at December 31, 1985 and 1984, respectively.

Included in the caption "Investments in and advances to unconsolidated subsidiaries and affiliates" in the consolidated statements of financial position are investments in two wholly-owned finance subsidiaries, AIFC and AIFL.

Condensed, combined statements of financial position and operations of AIFC and AIFL are as follows:

Statements of Financial Position

	December 31, 1985	December 31, 1984
Assets		
Cash	**$ 1,079**	$ 1,713
Receivables	**264,672**	219,691
Other assets	**5,206**	4,874
Total assets	**$270,957**	$226,278
Liabilities and shareholder's equity		
Short-term debt	**$146,291**	$109,131
Accounts payable and accrued liabilities	**3,259**	6,751
Long-term debt	**56,472**	46,160
	206,022	162,042
Shareholder's equity (including subordinated notes of $10,302 and $10,874 at December 31, 1985 and 1984, respectively)	**64,935**	64,236
Total liabilities and shareholder's equity	**$270,957**	$226,278

Statements of Operations

	1985	1984	1983
Interest and finance income			
Affiliated companies	**$13,132**	$25,205	$10,055
Other	**11,962**	10,129	14,019
	25,094	35,334	24,074
Expenses			
Interest	**17,716**	23,037	15,818
Other	**4,117**	3,419	2,732
	21,833	26,456	18,550
Income before income taxes and extraordinary item	**3,261**	8,878	5,524
Income taxes	**1,565**	4,262	2,652
Income before extraordinary item	**1,696**	4,616	2,872
Gain on extinguishment of debt, net of income taxes of $408	**–**	443	–
Net income	**$ 1,696**	$ 5,059	$ 2,872

AIFC and AIFL are engaged in financing the sale of Company products to distributors and end users. With respect to AIFC, the Company has agreed to repurchase any contracts that become in default and to pay finance charges to AIFC at such rates as will result in AIFC's annual net earnings before interest expense and income taxes being equal to 125% of interest expense of AIFC for such fiscal year (150% in 1984 and 1983). With respect to AIFL, the Company has agreed to repurchase any receivables or contracts that become in default and to pay finance charges to AIFL at a mutually agreeable rate.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

5. Inventories

	1985	1984
Contract work-in-process	**$ 29,429**	$ 28,976
Steel and other supplies	**110,610**	125,158
Work-in-process	**60,738**	71,139
Finished products	**88,615**	98,006
	$289,392	$323,279

6. Fixed Assets

	Cost	Accumulated depreciation and amortization	Net
December 31, 1985			
Land	**$ 7,350**	$ –	$ 7,350
Plant	**122,695**	38,687	84,008
Machinery and equipment	**240,732**	96,723	144,009
Property under capital leases (Note 12)	**2,407**	1,560	847
Construction in progress	**13,839**	–	13,839
	$387,023	$136,970	$250,053
December 31, 1984			
Land	**$ 9,764**	$ –	$ 9,764
Plant	**132,056**	36,810	95,246
Machinery and equipment	**269,660**	99,915	169,745
Property under capital leases (Note 12)	**6,814**	2,576	4,238
Construction in progress	**9,924**	–	9,924
	$428,218	$139,301	$288,917

7. Debt

Short-Term

Short-term borrowings are transacted either through commercial banks using overdrafts or promissory notes or through the issuance of commercial paper. Information on the Company's short-term borrowings for the three years ended December 31, 1985, 1984 and 1983 is as follows:

Category of aggregate short-term borrowings	Balance, end of year	Weighted average interest rate at end of year	Maximum amount outstanding during the year	Average amount outstanding during the year	Weighted average interest rate during the year
1985					
Notes payable to banks	**$38,620**	**9.4%**	**$77,519**	**$60,220**	**9.6%**
Commercial paper	**$ –**	**–%**	**$13,309**	**$ 2,205**	**9.8%**
1984					
Notes payable to banks	$56,077	9.9%	$158,500	$48,114	12.5%
Commercial paper	$ 2,240	11.0%	$ 74,891	$42,321	11.0%
1983					
Notes payable to banks	$21,292	10.8%	$ 95,188	$74,881	10.8%
Commercial paper	$30,136	9.6%	$ 78,561	$70,977	9.7%

At December 31, 1985, the Company had available approximately $45 million of unused short-term borrowing facilities.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

7. Debt (Continued)

Long-Term

	1985	1984
Debentures due 1986 – 9%	**$ 25,000**	$25,000
Debentures due 1998 – 11.5%	**60,000**	60,000
Deutsche Mark Bonds due 1991 (DM 100 million) – 8.25%	**40,530**	31,841
	125,530	116,841
Debt of Subsidiary Companies		
Revolving credit bank notes	**130,000**	205,000
Debentures due 1999 – 12.25%	**50,000**	50,000
Notes payable to banks due 1990	**50,000**	–
Deutsche Mark Bonds due 1992 (DM 150 million) – 7.375%	**60,795**	–
Note payable to bank due 1989 – 9.8%	**25,000**	–
Note payable to insurance company – 9.5%	**–**	23,400
Other notes payable due in installments through 2004 at interest rates varying from 6.1% to 14%	**14,965**	17,610
Obligations under capital leases (Note 12)	**1,299**	5,147
	332,059	301,157
	457,589	417,998
Less installments due in one year	**62,384**	5,927
	$395,205	$412,071

The $60,000 of retractable debentures bear an interest rate of 11.5% through June 1, 1988. The Company has the right to adjust the interest rate to apply during the five-year periods beginning on June 1, 1988 and June 1, 1993. Interest is payable annually in June of each year. The debentures may be redeemed in whole or in part at the option of the Company and any debenture holder may require the Company to redeem his debentures, in each case at 100% of their principal amount, on June 1, 1988 and 1993.

Interest on the 1991 Deutsche Mark Bonds is payable annually in December of each year. During 1984 the Company invested DM 100 million primarily in marketable securities issued or guaranteed by the government of the Federal Republic of Germany (which appears as a long-term investment in the consolidated statements of financial position) as a hedge against the exchange exposure related to these bonds.

The Company has revolving credit agreements with two banks which provide that the Company may borrow up to $45,000. No amounts were outstanding under these agreements at December 31, 1985 and 1984. On December 1, 1986, or later with the consent of the banks, the banks' commitment will commence to be extinguished by 24 equal semi-annual reductions, and the Company will be required to make repayments to the extent that the outstanding loans exceed the commitment limit. Interest is payable at rates not exceeding the U.S. prime rate. The weighted average interest rate was 11.2% and 10.2% during 1984 and 1983, respectively. The Company pays an annual commitment fee of 1/4% on the unused amount of the facility.

A subsidiary of the Company has revolving credit agreements with a group of banks which provide that the subsidiary may borrow up to $275,000. The amounts outstanding under these agreements at December 31, 1985 and 1984 were $130,000 and $205,000, respectively. The outstanding loan balances will convert principally on May 1, 1987 into term loans repayable in 16 equal quarterly installments commencing on August 1, 1987. Interest is payable at rates not exceeding the U.S. prime rate. The weighted average interest rate was 8.9%, 11.0% and 10.3% during 1985, 1984 and 1983, respectively. The subsidiary pays an annual commitment fee of 3/8% on the unused amount of the facility.

The $50,000 of retractable debentures are guaranteed by the Company and bear an interest rate of 12.25% through December 21, 1989. Thereafter the subsidiary has the right to designate the interest rate to apply to each subsequent interest period (one or more whole-year periods, as designated by the subsidiary) beginning on December 21, 1989 and at the end of each subsequent interest period. Interest is payable annually in December of each year. The debentures may be redeemed in whole or in part at the option of the subsidiary and any debenture holder may require the subsidiary to redeem his debentures, in each case at 100% of their principal amount, on December 21, 1989 and at the end of each subsequent interest period.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

7. Debt (Continued)

In April 1985, a subsidiary of the Company borrowed $50,000 from two banks which is due in April 1990. Interest is payable quarterly at rates not exceeding the U.S. prime rate. The weighted average interest rate was 8.9% during 1985. In December 1985, a subsidiary of the Company issued Deutsche Mark Bonds (DM 150 million) at 99½% of their face value which are guaranteed by the Company. Interest is payable annually in December of each year. In addition, a subsidiary of the Company issued a note for $25 million to a bank which is due in 1989. Interest is paid quarterly. Proceeds of these issues were used for the repayment of the subsidiary's revolving credit bank notes.

The revolving credit agreements and the loan agreements relating to subsidiary companies contain certain covenants with respect to working capital, net worth, leases, indebtedness, the payment of dividends and other items. The Company has complied with all provisions of these agreements. At December 31, 1985, $126 million of retained earnings was free of restrictions on dividend payments.

Future principal payments on long-term debt are as follows (assuming that the revolving credit agreements are converted into term loans at the earliest possible dates indicated above and assuming no early redemptions of retractable debentures):

1987	$ 13,236
1988	26,588
1989	49,870
1990	75,198
1991	53,643
Thereafter	176,670
	$395,205

The Company has reclassified $35,000 of long-term debt to current liabilities as of December 31, 1985. This represents the proceeds from disposals of businesses (see Note 2) through January 24, 1986 which have been used to pay down the revolving credit bank notes.

8. Interest Expense – Net

	1985	1984	1983
Interest on long-term debt	**$41,290**	$43,262	$38,939
Interest on short-term debt	**6,795**	12,245	17,133
Interest income	**(12,788)**	(12,725)	(16,497)
	$35,297	$42,782	$39,575

9. Capital Stock

The Company is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of common and preferred shares of no par value.

On August 13, 1985, the Company issued 3,000,000 shares of 9.25% Cumulative Redeemable Retractable Preferred Shares Series 3 for a cash consideration of $55,290 (Cdn. $75,000). Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.3125 per share. A holder of such shares may require the Company to redeem his shares on September 1 in each of the years 1990 to 1995, inclusive, at a price equal to Cdn. $25.00 per share. On or after September 1, 1990 the shares will be redeemable at the option of the Company at a price equal to Cdn. $25.00. Expenses of $1,554 have been charged directly to retained earnings. The proceeds were used to reduce short-term bank borrowings and for general corporate working capital purposes.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

9. Capital Stock (Continued)

On November 13, 1984, the Company issued 8,165,000 shares of 9.5% Cumulative Redeemable Convertible Preferred Shares Series 2 for a cash consideration of $155,278 (Cdn. $204,125). Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.375 per share. Each share is convertible at any time prior to November 16, 1994 into one common share. Also, subject to market conditions, these shares are redeemable at the option of the Company at a price which decreases in equal annual amounts from Cdn. $26.00 to Cdn. $25.00 between November 16, 1989 and November 15, 1995, and thereafter at Cdn. $25.00. The Company is obligated to repurchase a maximum of 163,300 shares annually beginning in 1990 if such shares are available at a price not exceeding Cdn. $25.00 per share. Expenses of $3,255 were charged directly to retained earnings. The proceeds were used to reduce short-term bank borrowings.

On December 7, 1983, the Company issued 3,000,000 shares of 8.84% Cumulative Redeemable Retractable Preferred Shares Series 1 for a cash consideration of $60,270 (Cdn. $75 million). Expenses of $1,070, net of income taxes of $859, were charged directly to retained earnings. The proceeds were used to reduce short-term bank borrowings and for general corporate working capital purposes. Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.21 per share. A holder of such shares may require the Company to redeem his shares on December 1, 1989 at a price equal to Cdn. $25.00 per share. On or after December 1, 1988, the Series 1 Preferred Shares will be redeemable at the option of the Company at a price which decreases in equal annual amounts from Cdn. $26.00 to Cdn. $25.00 between December 1, 1988 and December 1, 1993, and at Cdn. $25.00 thereafter. The Company is obligated to repurchase a maximum of 60,000 shares annually from 1985 through 1989 and 4% of the total shares outstanding at December 31, 1989 annually thereafter, if such shares are available at a price not exceeding Cdn. $25.00 per share. During 1985, the Company repurchased 45,000 shares at a total cost of $824 under this obligation.

During 1985 the Company paid a common stock dividend equal to $.25 per common share which was approximately equal to one share of stock for every 50 shares owned. A total of 666,404 common shares were issued.

The Company has a stock option plan under which options for a term not exceeding 10 years may be granted to key employees to purchase common shares of the Company at a price not less than 90% of their fair market value at the date of grant. Common shares reserved for exercise of these options may not at any time exceed 5% of the number of common shares then outstanding. Transactions involving the plan are summarized below:

	Shares		Option Price Per Share
	Reserved	Granted	(Canadian Currency)
Outstanding December 31, 1984	430,650	979,900	$12.00-$20.375
Granted	(62,500)	62,500	$19.50
Exercised	–	(6,250)	$12.00
Cancelled	75,000	(75,000)	$16.65-$19.50
Outstanding December 31, 1985	443,150	961,150	$12.00-$20.375

The options outstanding at December 31, 1985, of which officers of the Company held 757,500, are exercisable through various dates up to July 1995. In 1985, 6,250 shares were issued for cash aggregating Cdn. $75,000.

In 1984, 115,500 shares were issued for cash and notes receivable at an option price per share of Cdn. $12.00 and aggregating Cdn. $1,386. In 1983, 339,050 shares were issued for cash and notes receivable at an option price per share ranging between Cdn. $6.875 and Cdn. $17.50 and aggregating Cdn. $4,153.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

10. Pension Plans

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension expense (normal cost and amortization of unfunded past service costs over periods ranging from 10 to 30 years) was $7,074, $6,003 and $10,034 in 1985, 1984 and 1983, respectively. Pension expense in 1984 decreased as a result of changes in various actuarial assumptions based upon plan experience, primarily those related to employment levels. It is the Company's policy to fund pension costs accrued. Benefits under certain German pension plans, in accordance with applicable laws, have not been funded and the costs not being funded ($5,447 and $3,912 at December 31, 1985 and 1984, respectively) are included in deferred liabilities in the consolidated statements of financial position.

A comparison of accumulated plan benefits and plan net assets for the pension plans of the Company and its subsidiaries at January 1, 1985 and 1984 is as follows:

	1985	1984
Actuarial present value of accumulated plan benefits		
Vested	**$180,079**	$167,379
Nonvested	**9,953**	9,868
	$190,032	$177,247
Net assets available for benefits	**$238,916**	$250,879

The weighted average assumed rates of return used in determining the actuarial present value of accumulated plan benefits is 8% in both years.

Included in Other revenues in the consolidated statements of operations for the year ended December 31, 1984 is a $9,807 refund of a surplus in the Company's pension plan in Canada. This amount had previously been charged to expense and is excess to future funding requirements.

11. Business Segments

The Company operates in the following industry segments:

Construction Products
Compaction equipment; cranes and derricks; excavators; material handling equipment; tree harvesting and pulp and paper processing equipment.

Engineering and Construction Services
Bulk material handling systems; pile-driving equipment; offshore petroleum production and distribution systems; turnkey petroleum refineries, petrochemical and industrial plants; pre-engineered building systems.

Industrial Products
Aerospace components; beverage, dairy and food processing and packaging machinery; hydraulic components and systems; marine, industrial and shipyard cranes; metal forming machinery; water well drilling equipment; Machine Tools – Computer numerically controlled horizontal and vertical lathes and turning centers; horizontal and vertical machining centers; horizontal boring, drilling and milling machines; automatic assembly machines; flexible manufacturing systems; transfer machines; computer numerical controls; microprocessors; cutting tools and fixtures; drill point grinders; balancing equipment.

Steel Products and Services
Steel production, distribution, fabrication and erection; energy products, services and systems related to the generation and transmission of electric power from fossil fuel, nuclear, hydroelectric, tidal power and waste conversion resources.

Financial, Marketing and Licensing Services
Financing to promote sales of AMCA products; purchasing of raw materials and components for AMCA units; marketing AMCA products; licensing of proprietary AMCA patents and trademarks outside North America.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

11. Business Segments (Continued)

	Year ended December 31, 1985								
	Assets before eliminations	Assets after eliminations	Sales			Segment operating profit before eliminations	Segment operating profit after eliminations	Capital expenditures (1)	Depreciation and amortization (1)
			Gross	Inter-segment	Net				
Industry Segment									
Construction Products	$ 163,807	$ 162,969	$ 276,933	$ 2,370	$ 274,563	$ 20,971	$ 21,866	$ 5,286	$ 4,485
Engineering and Construction Services	140,914	140,914	445,549	1,401	444,148	21,357	20,924	11,956	3,882
Industrial Products (2)	390,989	390,934	572,972	5,390	567,582	30,219	30,219	16,115	19,872
Steel Products and Services	110,911	110,546	237,933	1,182	236,751	3,110	3,110	7,887	4,647
Financial, Marketing and Licensing Services	334,354	87,825	59,749	24,110	35,639	47,245	5,585	609	865
	$1,140,975	893,188	$1,593,136	$34,453	$1,558,683	$122,902	$ 81,704	$41,853	$33,751
Corporate		304,653							
Investments in and advances to unconsolidated subsidiaries and affiliates		71,566							
Net assets of businesses to be disposed		117,915							
Total assets		$1,387,322							
Geographic Segment									
United States (2)	$ 548,829	$ 544,324	$1,114,447	$18,499	$1,095,948	$ 55,225	$ 55,596		
Canada	133,504	133,140	294,676	16,384	278,292	7,226	7,032		
Europe	444,239	196,641	219,909	56,667	163,242	57,202	18,984		
Other	70,812	19,083	21,594	393	21,201	92	92		
	$1,197,384	$ 893,188	$1,650,626	$91,943	$1,558,683	$119,745	$ 81,704		
Reconciliation of Segment Operating Profit to Net Income									
Segment operating profit							$ 81,704		
Corporate expenses							(25,625)		
Unallocated net interest expense (2)							(43,175)		
Equity in pre-tax losses of unconsolidated subsidiaries and affiliates (excluding AIFC & AIFL)							(870)		
Income before income taxes							12,034		
Income tax benefit							(4,754)		
Net income							$ 16,788		

(1) Capital expenditures and depreciation and amortization exclude $1,462 and $4,493, respectively, of corporate amounts.
(2) Included in net sales and operating profit are $155,070 and $7,919, respectively, related to businesses to be disposed (Note 2). In addition, net interest expense would have been reduced by approximately $8,000 if the proceeds from these dispositions had been used to pay down debt.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

11. Business Segments (Continued)

Year ended December 31, 1984

	Assets before eliminations	Assets after eliminations	Sales Gross	Sales Inter-segment	Sales Net	Segment operating profit before eliminations	Segment operating profit after eliminations	Capital expenditures (1)	Depreciation and amortization (1)
Industry Segment									
Construction Products	$ 147,952	$ 141,935	$ 261,429	$ 1,812	$ 259,617	$ 13,241	$13,241	$ 2,855	$ 4,930
Engineering and Construction Services	141,872	139,872	418,724	1,222	417,502	20,902	20,902	3,038	3,666
Industrial Products (2)	459,046	458,651	491,234	5,663	485,571	27,275	27,275	14,039	18,453
Steel Products and Services	114,265	114,265	257,959	1,736	256,223	(1,946)	(1,946)	4,407	4,645
Financial, Marketing and Licensing Services	335,160	81,450	25,191	18,321	6,870	52,192	2,789	832	604
	$1,198,295	936,173	$1,454,537	$28,754	$1,425,783	$111,664	$ 62,261	$ 25,171	$32,298
Corporate		250,834							
Investments in and advances to unconsolidated subsidiaries and affiliates		71,593							
Net assets of businesses to be disposed		58,147							
Total assets		$1,316,747							
Geographic Segment									
United States (2)	$ 613,960	$ 610,933	$ 976,880	$13,329	$ 963,551	$ 51,508	$ 50,998		
Canada	145,052	145,052	298,707	7,302	291,405	(1,146)	(1,389)		
Europe	420,510	158,479	187,198	41,835	145,363	53,107	12,192		
Other	72,944	21,709	25,744	280	25,464	460	460		
	$1,252,466	$ 936,173	$1,488,529	$62,746	$1,425,783	$103,929	$ 62,261		

Reconciliation of Segment Operating Profit to Net Loss

Segment operating profit	$ 62,261
Corporate expenses	(25,694)
Unallocated net interest expense (2)	(52,721)
Equity in pre-tax losses of unconsolidated subsidiaries and affiliates (excluding AIFC & AIFL)	(5,100)
Other revenues	9,807
Loss from continuing operations before income taxes	(11,447)
Income tax benefit	(16,514)
Income from continuing operations	5,067
Discontinued operations – net of income taxes	(6,722)
Net loss	$ (1,655)

(1) Capital expenditures and depreciation and amortization exclude $3,088 and $4,051, respectively, of corporate amounts.
(2) Included in net sales and operating profit are $154,006 and $10,070, respectively, related to businesses to be disposed (Note 2). In addition, net interest expense would have been reduced by approximately $9,900 if the proceeds from these dispositions had been used to pay down debt.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

11. Business Segments (Continued)

Year ended December 31, 1983

	Assets before eliminations	Assets after eliminations	Sales Gross	Sales Inter-segment	Sales Net	Segment operating profit before eliminations	Segment operating profit after eliminations	Capital expenditures (1)	Depreciation and amortization (1)
Industry Segment									
Construction Products	$ 203,967	$ 187,209	$ 201,618	$ 486	$ 201,132	$ 4,304	$ 4,304	$ 3,461	$ 5,367
Engineering and Construction Services	109,600	107,138	316,583	1,550	315,033	(1,761)	(1,761)	943	4,146
Industrial Products (2)	420,932	416,116	448,877	2,151	446,726	25,061	25,061	12,985	17,279
Steel Products and Services	138,512	134,877	248,975	1,301	247,674	(521)	(521)	1,969	4,967
Financial, Marketing and Licensing Services	393,213	54,439	14,929	11,112	3,817	53,185	10,091	1,087	1,285
	$1,266,224	899,779	$1,230,982	$16,600	$1,214,382	$80,268	$ 37,174	$20,445	$33,044
Corporate		227,900							
Investments in and advances to unconsolidated subsidiaries and affiliates		71,997							
Net assets of businesses to be disposed		50,421							
Total assets		$1,250,097							
Geographic Segment									
United States (2)	$ 640,169	$ 563,910	$ 766,585	$ 7,898	$ 758,687	$25,290	$ 19,814		
Canada	166,281	161,515	273,023	647	272,376	(4,206)	(4,206)		
Europe	445,398	154,180	185,266	21,333	163,933	59,807	22,189		
Other	71,824	20,174	19,485	99	19,386	(497)	(623)		
	$1,323,672	$ 899,779	$1,244,359	$29,977	$1,214,382	$80,394	$ 37,174		

Reconciliation of Segment Operating Profit to Net Loss

Segment operating profit	$ 37,174
Corporate expenses	(25,058)
Unallocated net interest expense (2)	(51,633)
Equity in pre-tax losses of unconsolidated subsidiaries and affiliates (excluding AIFC & AIFL)	(3,693)
Loss from continuing operations before income taxes	(43,210)
Income tax benefit	(39,605)
Loss from continuing operations	(3,605)
Discontinued operations – net of income taxes	(35,689)
Net loss	$(39,294)

(1) Capital expenditures and depreciation and amortization exclude $1,913 and $3,479, respectively, of corporate amounts.
(2) Included in net sales and operating profit are $123,919 and $1,858, respectively, related to businesses to be disposed (Note 2). In addition, net interest expense would have been reduced by approximately $9,500 if the proceeds from these dispositions had been used to pay down debt.

Intersegment and interregional sales are accounted for at prices which the Company believes approximate market. The Canadian operations include export sales, primarily to customers in the United States, Africa and the Far East of $22,408, $59,012, and $22,296 in 1985, 1984 and 1983, respectively.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

12. Long-Term Lease Commitments

The Company leases machinery, transportation equipment, office, warehouse and manufacturing facilities for periods up to 25 years.

The following is an analysis of the property under capital leases by major classes:

Classes of Property	Asset balances (Note 6) at December 31, 1985	1984
Manufacturing facilities	**$1,735**	$5,425
Other	**672**	1,389
	2,407	6,814
Less accumulated amortization	**1,560**	2,576
	$ 847	$4,238

Future minimum lease payments under all leases at December 31, 1985 are:

	Capital leases	Operating leases
1986	$ 567	$10,453
1987	531	8,835
1988	143	6,133
1989	142	3,932
1990	142	2,156
Subsequent to 1990	–	4,222
Total minimum lease payments	1,525	$35,731
Less amount representing interest	226	
Present value of minimum lease payments (Note 7)	$1,299	

Total rental expense for all operating leases for the years ended December 31, 1985, 1984 and 1983 was $11,143, $11,900 and $12,271, respectively.

13. Transactions with Related Parties

Transactions with related parties during the years ended December 31, 1985, 1984 and 1983 were as follows:

	1985	1984	1983
Sales of various products	**$13,341**	$ 5,667	$ 5,045
Purchases of inventories	**39,950**	42,587	29,468
Finance charges from unconsolidated subsidiaries	**13,132**	25,205	10,055

14. Contingent Liabilities

A number of claims and lawsuits seeking unspecified damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon information presently available to it, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position.

December 31, 1985, 1984 and 1983
(In thousands of U.S. dollars)
(Continued)

15. Differences Between Canadian and United States Accounting Principles

Generally accepted accounting principles (GAAP) in Canada permit expenses related to the issue of capital stock, net of income taxes, to be deducted from retained earnings while United States GAAP requires such expenses to be deducted from the proceeds of stock issuances credited to capital stock. This reclassification would not affect net income as reported but would reduce capital stock and increase retained earnings by $7,085 at December 31, 1985, $5,531 at December 31, 1984 and $2,276 at December 31, 1983.

The 8.84% redeemable preferred shares – Series 1 and 9.25% redeemable preferred shares – Series 3 have been classified in the shareholders' equity section in the consolidated statements of financial position in accordance with GAAP. United States Securities and Exchange Commission regulations require that such securities be classified outside the shareholders' equity section. Such a reclassification would not affect net income.

Auditors' Report

To the Shareholders of AMCA International Limited

We have examined the consolidated statements of financial position of AMCA International Limited at December 31, 1985 and 1984 and the consolidated statements of operations, retained earnings, and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1985 in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period.

Arthur Young & Company

Chartered Accountants

Montreal, Canada
January 24, 1986

(Unaudited, in thousands of dollars except per share data)	1985				1984			
	December	September	June	March	December	September	June	March
Revenues								
Sales	$402,314	$398,493	$405,344	$352,532	$354,685	$350,350	$368,470	$352,278
Equity in pre-tax earnings of unconsolidated subsidiaries and affiliates	(1,972)	1,485	1,484	1,394	1,377	1,230	1,215	807
Other	–	–	–	–	–	–	9,807	–
	400,342	399,978	406,828	353,926	356,062	351,580	379,492	353,085
Costs and Expenses								
Cost of sales	318,020	314,408	319,584	276,461	282,657	279,075	294,806	280,599
Selling, general and administrative	64,037	63,709	62,031	58,742	61,433	58,574	59,333	59,529
Depreciation and amortization	9,082	9,585	9,697	9,880	9,309	9,099	9,203	8,738
Interest – net	8,527	8,078	9,344	9,348	12,612	12,072	9,212	8,886
Foreign currency transaction (gain) loss	(1,597)	(405)	517	(8)	(1,114)	(770)	762	(2,349)
	398,069	395,375	401,173	354,423	364,897	358,050	373,316	355,403
Income (Loss) from Continuing Operations before Income Taxes	2,273	4,603	5,655	(497)	(8,835)	(6,470)	6,176	(2,318)
Income tax provision (benefit)	(911)	(850)	215	(3,208)	(4,947)	(3,553)	(2,698)	(5,316)
Income (Loss) from Continuing Operations	3,184	5,453	5,440	2,711	(3,888)	(2,917)	8,874	2,998
Discontinued Operations								
Income (loss) from operations, net of tax	–	–	–	–	–	(3,240)	185	(107)
Loss on disposal, net of tax	–	–	–	–	(799)	(2,761)	–	–
	–	–	–	–	(799)	(6,001)	185	(107)
Net Income (Loss)	$ 3,184	$ 5,453	$ 5,440	$ 2,711	$ (4,687)	$ (8,918)	$ 9,059	$ 2,891
Per Common Share Data*								
Sales	$ 11.83	$ 11.72	$ 11.92	$ 10.36	$ 10.43	$ 10.31	$ 10.85	$ 10.39
Continuing operations	(.08)	–	.02	(.06)	(.21)	(.12)	.23	.04
Net income (loss)	(.08)	–	.02	(.06)	(.23)	(.30)	.23	.04
Cash dividends	–	–	–	–	.25	.25	.25	.25

*Per share data have been calculated on a quarterly basis using the weighted average shares outstanding during each quarter and has been restated for 1984 to give retroactive effect to the common stock dividend paid by the Company during 1985.

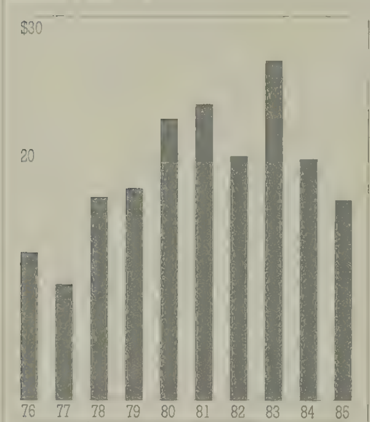
Stock Exchanges
Montreal, New York, Toronto

Ticker Symbol
AIL

Transfer Agent and Registrar
Canada – The Royal Trust Company (Common and Preferred Series 1: Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Preferred Series 2 and Series 3: Same, with Halifax additional.)
United States – Manufacturers Hanover Trust Company (New York)

Stock Ownership
The Algoma Steel Corporation, Limited owns 34.5 percent of the Company's outstanding common shares. Canadian Pacific Enterprises Limited owns 16.2 percent of the Company's outstanding common shares and, in addition, owns 61.8 percent of Algoma's common shares. Canadian Pacific Limited owns 100 percent of the outstanding common shares of Canadian Pacific Enterprises Limited.

Dividend Information
Dividends were paid in 1985 as follows: CDN$2.21 on preferred shares Series 1, CDN$2.375 on convertible preferred shares Series 2, CDN$.88 on preferred shares Series 3 (for the period from issue date, August 13, 1985, to December 31, 1985) and a stock dividend (one share for every 50 shares held) equivalent to US$0.25 on the common shares, was paid for the quarter ended September 30, 1985.



Common Stock Price*

Common Stock Cash Dividend†

*Canadian Dollars Per Share.

At the end of December the stock closed at CDN $15.75 on the Toronto Stock Exchange. The closing price at the end of December on the New York Stock Exchange was $11.00.

†Dividends converted to U.S. dollars for purposes of this chart. The apparent reduction in dividends in 1977 resulted from the manner in which the Company chose to pay the increase allowed by the Canadian Anti-Inflation Board in late 1976.

Data adjusted to reflect the two-for-one stock subdivisions in October 1976 and December 1979.

Common Share Price Range by Quarters

	1985				1984			
	First	Second	Third	Fourth	First	Second	Third	Fourth
*Toronto Stock Exchange								
High	**20⅜**	**15½**	**17½**	**16½**	28	23½	22	21⅝
Low	**14¼**	**13⅛**	**13½**	**13¼**	19¼	19½	17	17¾
New York Stock Exchange								
High	**15⅜**	**11¼**	**13⅛**	**12**	22	18⅛	16¼	16½
Low	**10¾**	**10**	**10**	**9⅞**	15½	15	13½	13⅝

*In Canadian dollars.

Russell S. Allison (1985)
President
CP Rail
(Transportation)

M. Norman Anderson (1985)
Chairman and Chief Executive Officer
Cominco Ltd.
(Natural resources)

***Kenneth S. Barclay** (1968)
Chairman and Chief Executive Officer
AMCA International Limited

Frederick S. Burbidge (1983)
Chairman
Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

***Robert W. Campbell** (1979)
Vice Chairman
Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

***Michael D. Dingman** (1978)
President and Director
Allied-Signal Inc.
(Engineering, high technology and manufacturing)
To be
Chairman and Chief Executive Officer
The Henley Group, Inc.
(Technical and energy services; chemical and manufacturing; health and scientific products)

*‡**Stuart E. Eagles** (1983)
Vice President Corporate
Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

William R. Holland (1985)
President and Chief Operating Officer
AMCA International Limited

***John Macnamara** (1973)
Chairman and Chief Executive Officer
The Algoma Steel Corporation, Limited
(Steel manufacturer)

†‡**Brian R. B. Magee** (1971)
Honorary Chairman
Royal LePage
(Real estate company)

John R. Meyer (1978)
Professor
Harvard University

‡**Peter M. Nixon** (1981)
President and Chief Operating Officer
The Algoma Steel Corporation, Limited
(Steel manufacturer)

†**C. Douglas Reekie** (1984)
Vice Chairman
CAE Industries Ltd.
(Holding and management company)

James E. Robison (1978)
President
Lonsdale Enterprises, Inc.
(Financial consulting company)

†‡**Dalton D. Ruffin** (1974)
Regional Vice President
Wachovia Bank & Trust Company, N.A.
(Commercial bank)

James R. Shepley (1983)
Vice Chairman
Pullman-Peabody Inc.
(Diversified manufacturing)
President
Wilton II, Inc.
(Management consulting company)

Frank J. Stevenson (1985)
Executive Vice President
AMCA International Limited

Arthur Temple (1984)
Chairman
Temple-Inland Inc.
(Forest products company)

Robert J. Theis, Sr. (1983)
Chairman
Westover Holding Corporation
(Personal investment company)

*Member, Executive Committee
†Member, Audit Committee
‡Member, Management Resources and Remuneration Committee
(Year of election to Board of Directors in parentheses)

Officers

Principal Corporate Officers

Kenneth S. Barclay
Chairman and Chief Executive Officer

William R. Holland
President and Chief Operating Officer

Ross E. Chamberlain
Executive Vice President

Frank J. Stevenson
Executive Vice President

Senior Corporate Officers

Arnold B. Bjornsson
Group Vice President

Robert C. Kelley
Group Vice President

John B. Phelan
Group Vice President

John J. Reynolds
Group Vice President

Karl H. Schwamborn
Group Vice President

Julian B. Twombly
Group Vice President

John A. Davis
Senior Vice President
(General Counsel, Secretary)

Other Corporate Officers

James H. Frost
Vice President

Eldon J. McDonald
Vice President

Robert A. Reid
Vice President

Henry S. Tamaki
Vice President

Michael J. Ucci
Vice President

Charles G. Crabtree
Controller

Donald E. Reed
Treasurer

Construction Products	Engineering and Construction Services	Financial, Marketing and Licensing Services	Industrial Products	Steel Products and Services	Company
		•			**AMCA Chimie et Plastiques** – International trading services
		•			**AMCA Financial Services** – Financial assistance for purchasing of Company products and services
		•			**AMCA International Finance** – Financial assistance for purchasing of Company products and services
		•			**AMCA Netherlands** – Holding company and financial services
		•			**AMCA Trading** – International purchasing, marketing and consulting services
			•		**ANCO/Votator** – Processing equipment for food, meat and chemical industries
			•		**Basic Electronics** – Single, double-sided and multi-layered printed circuit boards
			•		**Benton Harbor** – Hydraulic cylinders
•					**BOMAG** – Light and heavy duty compaction, stabilization and foundation equipment
			•		**Cherry-Burrell** – Processing and packaging equipment for food, dairy, beverage, pharmaceutical and cosmetic industries
			•		**Clyde** – Whirley cranes, specialized heavy duty lifting and pulling equipment
			•		**Davis Tool** – Boring tools, fixtures and special boring and facing machines
	•			•	**DB Engineers & Constructors** – Engineering and construction services
				•	**DB/McDermott*** – Design, fabrication and installation of offshore structures and laying marine pipeline
	•			•	**Dominion Bridge** – Fabricated industrial steel products and equipment; structural steel for buildings and bridges; steel service centers; engineering and construction services
	•			•	**Dominion Bridge-Sulzer*** – Fabricated industrial steel products especially for electric utility applications; structural steel; construction services
			•		**Fenn** – Precision aerospace components; metal forming machines
			•		**Giddings & Lewis-Bickford** – CNC machining centers, tool grinders, radial and upright drills
			•		**Giddings & Lewis Electronics** – Host computer systems, computer numerical controls, programmable controllers and microprocessors
			•		**Giddings & Lewis Foundry** – Castings and patterns
			•		**Giddings & Lewis-Fraser** – CNC machining and turning centers and textile machinery
			•		**Giddings & Lewis Machine Tool** – CNC horizontal machining centers, CNC vertical and horizontal turning centers
			•		**Gilman** – Automatic assembly equipment, balancing machines and vertical automatic lathes
	•				**IMODCO** – Offshore marine terminals
	•				**JESCO** – Commercial, industrial and process industry construction and millwright services
•					**Koehring Canada** – Pulpwood harvesting and paper mill machinery
•					**Koehring Construction Equipment** – General construction and material handling equipment
•					**Koehring Cranes & Excavators** – Koehring hydraulic excavators; Lorain hydraulic and cable cranes
	•				**Litwin Companies** – Engineering and construction services to worldwide petroleum and chemical processors
				•	**Manitoba Rolling Mills** – Rolling mill products; bar and light structural steel sections
			•		**Marshall & Huschart** – Machine tool distribution
	•				**MENCK** – Pile-driving hammers and related equipment
			•		**Monroe Forgings** – Alloy metal forged rings, bars, discs
			•		**Morgan/Provincial** – Industrial overhead traveling cranes; gantry cranes; steel mill equipment
	•				**ORBA** – Design, construction and operation of dry bulk material handling systems
			•		**Pressed Steel Tank** – Steel pressure vessels for storage of solids, liquids and gases
	•				**Quonset Buildings** – Pre-engineered rural buildings
				•	**Robb Engineering** – Structural steel fabrication and erection
			•		**Snyder** – Special machine tools and transfer systems
		•			**Span Holdings** – International purchasing, marketing and consulting services
			•		**Speedstar** – Well drilling machines
	•				**Stran Buildings** – Pre-engineered non-residential buildings
			•		**Unit Crane** – Pedestal-mounted marine cranes
	•				**Varco-Pruden Buildings** – Pre-engineered non-residential buildings

*Joint venture

Printed in Canada

AMCA
INTERNATIONAL